

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2009

PERFORMANCE HIGHLIGHTS

- Profit attributable to equity shareholders grew 33.0% to US\$91.5 million
- Net margin expanded by 3.5 percentage points, from 8.8% to 12.3%
- Group revenue down by 5.2% to US\$738.0 million
- Strong balance sheet, with net cash of US\$229.9 million
- Interim dividend up by 33.3% to US16.0 cents per ordinary share

UNAUDITED INTERIM RESULTS

The directors of VTech Holdings Limited (the "Company") announce the unaudited results of the Company and its subsidiaries (the "Group") and associates for the six months ended 30th September 2009 together with the comparative figures for the same period last year as follows:

CONSOLIDATED INCOME STATEMENT

		(Unaudited) Six months ended 30th September		(Audited) Year ended 31st March
	Note	2009 US\$ million	2008 US\$ million	2009 US\$ million
Revenue	3	738.0	778.5	1,448.2
Cost of sales		(483.5)	(515.1)	(920.7)
Gross profit		254.5	263.4	527.5
Selling and distribution costs		(97.0)	(117.5)	(232.1)
Administrative and other operating expenses		(29.3)	(41.5)	(84.2)
Research and development expenses		(27.5)	(29.6)	(56.9)
Operating profit	3&4	100.7	74.8	154.3
Net finance income		1.0	3.5	4.7
Profit before taxation		101.7	78.3	159.0
Taxation	5	(10.6)	(9.5)	(15.8)
Profit for the period / year		91.1	68.8	143.2
Attributable to:				
Equity shareholders of the Company		91.5	68.8	143.2
Minority interests		(0.4)	-	-
Profit for the period / year		91.1	68.8	143.2
Interim dividend	6	39.5	29.5	29.5
Final dividend	6			100.8
Earnings per share (US cents)	7			
- Basic		37.2	28.2	58.5
- Diluted		37.1	28.0	58.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)		(Audited)
	Six months ended		Year ended
	30th September		31st March
	2009	2008	2009
	US\$ million	US\$ million	US\$ million
Profit for the period / year	91.1	68.8	143.2
Other comprehensive income (after tax and reclassification adjustments)			
Realisation of hedging reserve	0.3	(0.4)	(0.6)
Fair value gains on hedging during the period / year	-	1.4	1.3
Exchange translation differences	7.7	(5.3)	(14.6)
Surplus arising on revaluation of properties	-	-	4.8
Other comprehensive income for the period / year	8.0	(4.3)	(9.1)
Total comprehensive income for the period / year	99.1	64.5	134.1
Attributable to:			
Equity shareholders of the Company	99.5	64.5	134.1
Minority interests	(0.4)	-	-
Total comprehensive income for the period / year	99.1	64.5	134.1

CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th September 2009		(Audited) 31st March 2009
	Note	US\$ million	US\$ million	US\$ million
Non-current assets				
Tangible assets		101.6	101.5	99.9
Leasehold land payments		3.7	3.8	3.8
Deferred tax assets		9.2	9.4	5.2
Investments		0.2	0.2	0.2
		114.7	114.9	109.1
Current assets				
Stocks		197.8	207.3	128.0
Debtors and prepayments	8	311.4	377.0	190.2
Financial assets at fair value through profit or loss		-	19.3	4.9
Taxation recoverable		0.4	0.3	3.1
Deposits and cash		229.9	143.7	287.2
		739.5	747.6	613.4
Current liabilities				
Creditors and accruals	9	(339.4)	(395.5)	(232.9)
Provisions		(51.4)	(48.5)	(41.8)
Taxation payable		(12.6)	(16.1)	(3.3)
		(403.4)	(460.1)	(278.0)
Net current assets		336.1	287.5	335.4
Total assets less current liabilities		450.8	402.4	444.5
Non-current liabilities				
Deferred tax liabilities		(4.0)	(3.3)	(4.3)
Net assets		446.8	399.1	440.2
Capital and reserves				
Share capital		12.3	12.3	12.3
Reserves		431.8	386.8	427.9
Total shareholders' fund attributable to equity shareholders of the Company		444.1	399.1	440.2
Minority interests		2.7	-	-
Shareholders' funds		446.8	399.1	440.2

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 BASIS OF PREPARATION

The Directors are responsible for preparing this Interim Financial Report in accordance with applicable law and regulations. The unaudited interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") including compliance with International Accounting Standard 34 ("IAS 34") – Interim Financial Reporting adopted by the International Accounting Standards Board (the "IASB").

The same accounting policies adopted in the 2009 annual financial statements have been applied to the Interim Financial Report except for the changes mentioned in note 2.

The preparation of an Interim Financial Report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Report has not been audited or reviewed by the auditors pursuant to the Auditing Practices Board guidance on "Review of Interim Financial Information".

The financial information relating to the financial year ended 31st March 2009 included in the Interim Financial Report does not constitute the Company's annual financial statements prepared under International Financial Reporting Standards ("IFRSs") for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31st March 2009 are available at the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15th June 2009.

2 CHANGE IN ACCOUNTING POLICIES

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

IAS 1 (Revised)	Presentation of financial statements
IFRS 8	Operating segments

IAS 1 (Revised) – Presentation of financial statements

As a result of the adoption of IAS 1 (Revised), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in the Interim Financial Report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

IFRS 8 – Operating segments

IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's senior executive management, and has resulted in amended disclosure being presented (see note 3). As this is the first period in which the Group has presented segment information in accordance IFRS 8, additional explanations have been included in the Interim Financial Report which explain the basis of preparation of the information. Corresponding amounts have been restated on a basis consistent with the revised segment information.

The adoption of other new and revised IFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods.

3 SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by geography. Upon its first time adoption of 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 segment covers sales of electronic products to rest of the world, some of which are sourced from within the Group.

The Company is domiciled in Bermuda. The results of its revenue from external customers for entities located in North America, Europe, Asia Pacific and others are set out in the table below.

Each of the above reportable segments primarily derive their revenue from the sale of telecommunication products, electronic learning products and contract manufacturing service to customers in the geographical region.

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

(a) Segment revenues and results

Revenue is allocated to the reporting segment based on the local entities' 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 (including inter segment sales).

Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

(b) Segment assets

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets including taxation recoverable and interests in associates.

Segment information regarding the Group's revenue, results and assets by geographical market is presented below:

	Reportable segment revenue (Unaudited)		Reportable segment profit (Unaudited)		Reportable segment assets (Unaudited)	Reportable segment assets (Audited)
	Six months ended 30th September		Six months ended 30th September		30th September	31st March
	2009	2008	2009	2008	2009	2009
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
North America	441.8	417.8	52.8	27.4	190.2	124.9
Europe	225.6	298.3	32.4	37.2	131.6	65.1
Asia Pacific	42.5	31.3	8.8	5.2	519.7	521.1
Others	28.1	31.1	6.7	5.0	2.9	2.9
	738.0	778.5	100.7	74.8	844.4	714.0

4 OPERATING PROFIT

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

	(Unaudited) Six months ended 30th September	
	2009	2008
	US\$ million	US\$ million
Depreciation of tangible assets	17.5	15.7
Loss on disposal of tangible assets	-	0.2
Net foreign exchange (gain) / loss	(6.9)	11.6
Net loss / (gain) on forward foreign exchange contracts	6.0	(0.4)
	<u> </u>	<u> </u>

5 TAXATION

	(Unaudited) Six months ended 30th September	
	2009	2008
	US\$ million	US\$ million
Company and subsidiaries		
Income tax		
- Hong Kong	12.5	10.1
- Overseas	2.3	3.1
Deferred tax		
- Origination and reversal of temporary differences	(4.2)	(3.7)
	<u> </u>	<u> </u>
	10.6	9.5
	<u> </u>	<u> </u>
Income tax	14.8	13.2
Deferred tax	(4.2)	(3.7)
	<u> </u>	<u> </u>
	10.6	9.5
	<u> </u>	<u> </u>

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

6 DIVIDENDS

(a) Dividends attributable to the period:

	(Unaudited) Six months ended 30th September	
	2009	2008
	US\$ million	US\$ million
Interim dividend of US16.0 cents (2008: US12.0 cents) per share declared	39.5	29.5
	<u> </u>	<u> </u>

The interim dividend was proposed after the balance sheet date and has not been recognised as liabilities at the balance sheet date.

(b) At a meeting held on 15th June 2009, the directors proposed a final dividend of US41.0 cents (2008: US51.0 cents) per ordinary share for the year ended 31st March 2009, which was estimated to be US\$100.8 million at the time calculated on the basis of the ordinary shares in issue as at 31st March 2009. The final dividend was approved by shareholders at the Annual General Meeting on 7th August 2009. As a result of shares issuance upon exercise of share options during the period between 1st April 2009 and 7th August 2009, the final dividend paid in respect of the year ended 31st March 2009 totaled US\$101.2 million (2008:US\$125.4 million).

7 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to equity shareholders of the Company of US\$91.5 million (2008: US\$68.8 million).

The calculation of basic earnings per share is based on the weighted average of 246.2 million (2008: 243.8 million) ordinary shares in issue during the period. The calculation of diluted earnings per share is based on 246.9 million (2008: 245.4 million) ordinary shares which is the weighted average number of ordinary shares in issue during the period after adjusting for the number of dilutive potential ordinary shares under the employee share option scheme.

8 DEBTORS AND PREPAYMENTS

Debtors and prepayments of US\$311.4 million (31st March 2009: US\$190.2 million) includes trade debtors of US\$280.4 million (31st March 2009: US\$154.0 million).

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

	(Unaudited) 30th September 2009 US\$ million	(Audited) 31st March 2009 US\$ million
0-30 days	175.7	67.2
31-60 days	72.2	43.4
61-90 days	29.3	22.6
>90 days	3.2	20.8
Total	<u>280.4</u>	<u>154.0</u>

The majority of the Group's sales are on letter of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

9 CREDITORS AND ACCRUALS

Creditors and accruals of US\$339.4 million (31st March 2009: US\$232.9 million) includes trade creditors of US\$173.5 million (31st March 2009: US\$102.4 million).

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

	(Unaudited) 30th September 2009 US\$ million	(Audited) 31st March 2009 US\$ million
0-30 days	75.6	49.2
31-60 days	60.0	30.9
61-90 days	25.4	10.2
>90 days	12.5	12.1
Total	<u>173.5</u>	<u>102.4</u>

10 COMPARATIVE FIGURES

As a result of the application of IAS 1 (revised), Presentation of financial statements, and IFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current period's presentation. Further details of these developments are disclosed in note 2.

INTERIM DIVIDEND

The Board of Directors (the "Board") has declared an interim dividend of US16.0 cents per ordinary share in respect of the six months ended 30th September 2009, payable on 31st December 2009 to shareholders whose names appear on the register of members of the Company as at the close of business on 24th December 2009.

The interim dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive the 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 mid rate of exchange prevailing on 21st December 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21st December 2009 to 24th December 2009, both dates inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates, must be lodged with the share registrars of the Company no later than 4:00 p.m., the local time of the share registrars, on Friday, 18th December 2009.

The principal registrar is Butterfield Fulcrum Group (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Room 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

CHAIRMAN'S STATEMENT

The first half of the financial year 2010 has been challenging for VTech, given the poor economic conditions in major markets around the world. Although revenue declined, lower material costs and higher productivity contributed to improved gross margin. In addition, better foreign exchange risk management, together with our proven ability to control costs, enabled us to increase both profit attributable to shareholders and the dividend.

Results and Dividend

Group revenue for the six months ended 30th September 2009 decreased by 5.2% to US\$738.0 million. Although the Group achieved sales growth in North America and Asia Pacific, it was insufficient to offset declines in Europe and other regions.

Despite the fall in revenue, profit attributable to equity shareholders increased by 33.0% to US\$91.5 million, and the net margin expanded from 8.8% to 12.3% during the period. The increase in profit and the margin expansion reflect lower material costs and higher operational efficiency, including our ability to engineer products and processes for lower cost. A stronger focus on managing foreign exchange risk enabled us to minimise the impact of fluctuations in the value of foreign currencies against the US dollar.

Earnings per share increased by 31.9% to US37.2 cents, as compared to US28.2 cents in the corresponding period last year. The Board has declared an interim dividend of US16.0 cents per ordinary share, representing an increase of 33.3% over the same period last year.

Segment Results

North America

North America remains the largest market for the Group. Despite poor economic conditions, revenue grew by 5.7% to US\$441.8 million in the first half of the financial year, accounting for 59.9% of Group revenue.

Growth was driven mainly by higher sales of telecommunication (TEL) products, which continue to deliver strong industrial design, rich features and competitive price points. This is supported by our world class supply chain management. The exit of a major competitor also enabled us to continue to gain market share. During the period, TEL sales to North America rose by 31.6% to US\$289.4 million.

VTech is the number one player in the US cordless phone market. This dominant market position notwithstanding, we continue to develop innovative products to strengthen our leadership.

In September, we launched the world's first cordless phone system that can download mobile phonebook directory entries. Using Bluetooth® technology, it allows 1,500 entries to be transferred from each of up to four mobile phones, providing seamless integration between mobile phones and home cordless phones. This gives users the freedom to make and receive mobile and landline calls with the convenience of a cordless handset.

Our first enterprise phone the SB67118, which sells under the AT&T brand, was launched during the period. It is the only small business system in the United States to feature optional DECT 6.0 repeaters, which give an unprecedented talk range. It is ideal for use in multi-level buildings, warehouses, restaurants, distribution centres and similar facilities. This product has been very well received by our customers.

Sales of electronic learning products (ELPs) declined by 25.1% to US\$103.6 million in North America. This was not unexpected. In view of the weak economy, we have placed more emphasis on value in our 2009 product offerings, and have delayed the launch of a major new platform product. Poor consumer sentiment resulted in pressure on more expensive products, leading to lower average selling prices (ASPs) and consequently lower revenue. On the other hand, standalone products, led by the infant category, performed well.

There were two major new product launches during the period, namely Jungle Gym and the Bugsby Reading System ("Bugsby"). The Jungle Gym line of products, which combines electronic learning, fun and physical activities, has been well received in the market. It is being sold outside the learning aisle and hence opens up an avenue for future growth. Bugsby offers pen touch technology and ease-of-use at an affordable price. The product has received a number of recognitions, including being named "Editor's Choice" by the *Children's Technology Review*. Its market performance so far is in line with expectation.

Contract Manufacturing Services (CMS) saw sales decline in North America, with revenue falling by 18.0% to US\$48.8 million. The decrease in sales partly reflects a comparison with a very strong first half in the financial year 2009. The recession in the United States also led to lower orders across the board.

During the period, CMS was successful in winning business from competitors, demonstrating our ability in providing flexible, high quality services.

Europe

Revenue from Europe declined by 24.4% to US\$225.6 million in the first half of the financial year. It accounted for 30.5% of Group revenue. Sales of TEL products, ELPs and CMS were all lower, as demand weakened in the face of the contraction of the European economies.

We sell our TEL products to customers in Europe on an Original Design Manufacturing ("ODM") basis. Sales of these ODM products fell by 24.4% to US\$76.9 million in the first half, following reduced orders from our customers. The magnitude of the decline also reflects the comparison with a strong first half in the financial year 2009.

The co-branded "T-Home/VTech" products, the result of our exclusive agreement with Deutsche Telekom, have been gradually increasing their presence on shelves in the German market since August. We expect an appreciable financial contribution in the second half, as our full range of products will hit the shelves in the fourth quarter of the financial year.

During the period, we also started shipping a small quantity of integrated access devices ("IADs"). Again, meaningful volumes will be seen only in the second half of the financial year.

ELP sales to Europe decreased by 26.1% to US\$95.4 million in the first half of the financial year. As in North America, declining consumer spending and lower ASPs depressed revenue. Led by the Kidizoom camera series, boxed products again fared much better than platform products.

Our ELPs won a number of important accolades in Europe during the period. Among them, the Kidizoom Camera has been named one of the twelve "Dream Toys" for Christmas 2009 by the Toy Retailers Association in the United Kingdom. In Belgium, V.Smile Motion won the "Toy of the Year 2009" award in the electronic games category.

CMS revenue in Europe dropped by 21.0% to US\$53.3 million in the first half, again in part owing to the effect of the exceptional growth recorded in the first half of the previous financial year. The decline resulted from lower sales of switching mode power supplies and wireless products, as customers reduced orders in light of softening consumer demand.

Asia Pacific

Asia Pacific outperformed other markets during the first half of the financial year, recording solid sales growth. Revenue rose by 35.8% to US\$42.5 million, accounting for 5.8% of Group revenue.

As a growing market for VTech, Asia Pacific recorded increased sales in all product lines. Sales of TEL products reached US\$8.1 million, growing by 9.5% over the same period last year. ELPs also sold well, with an 18.4% increase in sales to US\$10.3 million.

CMS showed the strongest growth in Asia Pacific, with sales rising by 58.6% to US\$24.1 million. Growth was boosted mainly by increasing sales in the area of solid state lighting, where our dedicated design resources and innovative manufacturing processes give us a strong competitive edge.

Other Regions

Revenue from other regions for the first half of the financial year decreased by 9.6% to US\$28.1 million, accounting for 3.8% of Group revenue.

The decrease was attributable to sales declines in both TEL products and ELPs. Other regions comprise mainly markets in Latin America, the Middle East and Africa, which the Group has been developing in recent years for growth.

Outlook

Whilst certain economic indicators have turned positive in recent months, suggesting that economic activities may have found some stability, unemployment in our major markets is high. We expect consumer sentiment to remain subdued through the holiday selling season. Consequently, we reiterate the position outlined during our last annual results announcement, that top line growth will not be easy to achieve in the current financial year, despite further gains in market share for TEL products and meaningful sales growth in solid state lighting. We do, however, expect continuous improvement in productivity across our operations, which should allow us to achieve higher profitability year on year.

North America and Europe

We expect our TEL products in North America to continue to sell well as we gain market share. The second half of the financial year will also be boosted by sales contributions from the recently introduced cordless and enterprise phone products.

In Europe, we expect to see sales pick up for TEL products in the second half of the financial year as orders from existing customers return to normal levels. Sales will be augmented by increasing shipments of IADs and as our full range of co-branded "T-Home/VTech" products appears on the shelves.

We expect, and have planned for a challenging 2009 holiday season for our ELPs, especially in North America and Europe. Meanwhile, a rich line-up of new products, led by exciting new platforms, has been developed for the calendar year 2010. To-date, we have previewed these products with key retail customers in the United States and have received uniform enthusiastic receptions.

We have seen signs of recovery for CMS as the US and the European economies have stabilised. We therefore expect CMS sales in these markets to pick up in the second half, and have already received more orders from existing customers.

Asia Pacific and Other Regions

Sales in Asia Pacific of our TEL products will benefit as we start to see a contribution from the licensing agreement signed in June with Telstra, the leading telecommunications and information services company based in Australia. We will also continue to expand our presence in other regions.

Our strategy will be to focus more efforts on developing Asia Pacific and other markets for ELPs, as demand for both electronic toys and educational products is growing rapidly in these regions.

For CMS, we see good opportunities in solid state lighting, which is currently limited mainly to commercial use because of its higher price. Governments around the world are looking to cut carbon emissions, in part through mandating the use of more energy efficient light bulbs. This is giving considerable impetus to the market for solid state lighting and VTech is well placed to capture this opportunity.

Conclusion

VTech is a company with market leadership position, a strong balance sheet and a highly efficient operation. Despite the challenging environment, we continue to post solid results. We will continue to focus on product innovation and geographic expansion in pursuit of growth, while managing costs and risks to enhance profitability. VTech is well positioned to take advantage of the recovery in the global economy.

REVIEW OF FINANCIAL RESULTS

Revenue

Group revenue for the six-month period ended 30th September 2009 decreased by 5.2% over the corresponding period of the previous financial year to US\$738.0 million. This was the result of a decrease in revenue from the European market and other regions, which contrasted with an increase in revenue at North American market and Asia Pacific regions. Revenue from the North American market was US\$441.8 million, an increase of 5.7% over the same period of the last financial year, and accounting for 59.9% of Group revenue. In Asia Pacific, revenue increased by 35.8% to US\$42.5 million, representing 5.8% of Group revenue. Sales to Europe declined by 24.4% to US\$225.6 million, accounting for 30.5% of Group revenue. Revenue from other regions decreased by 9.6% to US\$28.1 million, representing 3.8% of Group revenue.

The increase in revenue from North America was mainly due to higher sales of TEL products, which offset a decrease in the revenue of ELPs and CMS. Revenue from TEL products in North America was US\$289.4 million, an increase of 31.6% over the same period of the previous financial year. Growth in TEL revenue was mainly driven by increase in market share, strong industrial design and competitive product price points of TEL products. For ELPs, revenue decreased by 25.1% to US\$103.6 million, mainly as a result of a decrease in sales of platform products. Revenue from CMS fell by 18.0% to US\$48.8 million. The decrease in sales partly reflects a comparison with a very strong first half of the financial year 2009.

The European market saw a decline in revenue in TEL products, ELPs and CMS. For TEL products, which we sell in Europe on an ODM basis, revenue decreased by 24.4% to US\$76.9 million over the corresponding period of the previous financial year. The decrease was mainly attributable to reduced orders from customers. Sales of ELPs to Europe declined to US\$95.4 million, a decrease of 26.1%. The decrease resulted from declining consumer demand and lower average selling prices of ELPs. Revenue from CMS fell by 21.0% to US\$53.3 million. The decrease was mainly due to lower sales in the areas of switching mode power supplies and wireless products.

Revenue growth in Asia Pacific was mainly driven by an increase in sales of CMS. Revenue from CMS increased by 58.6% to US\$24.1 million over the previous financial period as a result of strong demand from customers in the area of solid state lighting. For TEL products, revenue from Asia Pacific increased by 9.5% to US\$8.1 million. Sales of ELPs to Asia Pacific increased by 18.4% to US\$10.3 million in current financial period as a result of increased sales of platform and standalone products.

For Other regions, revenue decrease was mainly attributable to a sales decline in both TEL products and ELPs. Sales of TEL products to other regions in the first six months of current financial year was US\$16.2 million, a decrease of 5.8% over the same period of financial year 2009. Revenue of ELPs from other regions decreased by 15.1% to US\$11.8 million in current financial period.

Gross Profit/Margin

The gross profit for the six-month period ended 30th September 2009 was US\$254.5 million, a decrease of US\$8.9 million or 3.4% compared to the US\$263.4 million recorded in the previous financial period. Gross profit margin for the period increased from 33.8% to 34.5%. The Group was able to improve gross profit margin because of lower material costs and measures taken to enhance efficiency in the manufacturing process and raise productivity.

Operating Profit/Margin

The operating profit for the six-month period ended 30th September 2009 was US\$100.7 million, an increase of US\$25.9 million or 34.6% over the corresponding period of previous financial year. The operating profit margin also increased from 9.6% in the previous financial period to 13.6% in the current financial period.

Selling and distribution costs decreased by 17.4% from US\$117.5 million in the first six months of the previous financial year to US\$97.0 million in the current financial period. The decrease was mainly attributable to decreased spending on advertising and promotional activities by the Group. As a percentage of Group revenue, selling and distribution costs decreased from 15.1% in the previous financial period to 13.1% in the current financial period.

Administrative and other operating expenses decreased from US\$41.5 million in the previous financial period to US\$29.3 million in the current financial period. An exchange gain of US\$0.9 million arising from the Group's global operations in the ordinary course of business was recorded under administrative and other operating expenses in the current financial period. This contrasted with an exchange loss of US\$11.2 million recorded in the previous financial period owing to the depreciation of the Euro and Sterling against the US dollar. Excluding the effect of exchange differences, the administrative and other operating expenses decreased slightly by US\$0.1 million compared to the previous financial period. Administrative and other operating expenses as a percentage of Group revenue, excluding the effect of exchange differences, increased slightly from 3.9% in the previous financial period to 4.1% in the current financial period.

Research and development activities are vital for the long-term development of the Group. During the first half of the financial year 2010, the research and development expense was US\$27.5 million, a decrease of 7.1% over the previous financial period. Research and development expenses as a percentage of Group revenue decreased from 3.8% in the previous financial period to 3.7% in the current financial period.

Net Profit and Dividends

The profit attributable to equity shareholders of the Company for the period ended 30th September 2009 was US\$91.5 million, an increase of US\$22.7 million as compared to the corresponding period of previous financial year.

Basic earnings per share for the period ended 30th September 2009 were US37.2 cents as compared to US28.2 cents in the first half of the previous financial year. Since the balance sheet date, the directors have declared an interim dividend of US16.0 cents per share, which will aggregate to US\$39.5 million.

Liquidity and Financial Resources

The Group's financial resources remain strong. As at 30th September 2009, the Group had net cash of US\$229.9 million and was debt-free. The Group has adequate liquidity to meet its current and future working capital requirements.

Treasury Policies

The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations and to minimise the Group's financial risks. The Group cautiously uses derivatives, principally forward foreign exchange contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Working Capital

The stock balance as at 30th September 2009 was US\$197.8 million, as compared to US\$128.0 million as at 31st March 2009. The increase in stock level was primarily to cater for the increased demand for the Group's products in the second half of the financial year 2010. The turnover days for stock stood at 98 days compared to 95 days in the corresponding period of the last financial year.

The trade debtors balance as at 30th September 2009 was US\$280.4 million, as compared to US\$154.0 million as at 31st March 2009. The increase in trade debtors was mainly due to increased in sales of TEL products in the first six months period of financial year 2010. The turnover days for trade debtors stood at 55 days compared to 62 days in the corresponding period of the last financial year.

Capital Expenditure and Contingencies

For the period ended 30th September 2009, the Group invested US\$18.1 million in the purchase of plant and machinery, equipment, computer systems and other tangible assets. All of these capital expenditures were financed from internal resources.

As of the financial period end date, the directors have been advised that certain accusations of infringements of patents have been lodged against the Company and its subsidiaries. Such accusations are strenuously refuted and vigorously defended. In the opinion of the legal counsel, it is too early to evaluate the outcome of these cases and provisions have been made only to the extent that the amounts can be reliably estimated.

CORPORATE GOVERNANCE PRACTICES

VTech Holdings Limited is incorporated in Bermuda and has its shares listing on The Stock Exchange of Hong Kong Limited. The corporate governance rules applicable to the Company is the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30th September 2009, the Company has complied with all the code provisions of the Code and to a large extent, the recommended best practices in the Code except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun ("Dr. WONG") has the combined role of Chairman and Group Chief Executive Officer. The Board of the Company considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as the non-executive directors form the majority of the Board, as four out of seven of our directors are independent non-executive directors. The Board believes the appointment of Dr. WONG to the posts of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The Board has established an Audit Committee, a Remuneration Committee, a Nomination Committee and a Risk Management Committee with defined terms of reference which are of no less exacting than those set out in the Code. Corporate governance practices adopted by the Company during the six months ended 30th September 2009 are in line with those practices set out in the Company's 2009 Annual Report.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun as members, all of whom are independent non-executive directors. It has been established to assist the Board in fulfilling its oversight responsibilities for financial reporting, risk management and evaluation of internal controls and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

During the financial year to date the Audit Committee met twice, attended by the Chairman, Chief Compliance Officer, Chief Financial Officer and external auditors. The major work performed by the Committee included reviewing the:

- audited Group financial statements and reports for the year ended 31st March 2009
- report from the external auditors for the year ended 31st March 2009
- unaudited Group financial statements for the six months ended 30th September 2009
- report from the external auditors based on limited agreed upon procedures on the unaudited Group financial statements for the six months ended 30th September 2009
- accounting principles and practices adopted by the Group
- implementation of applicable International Financial Reporting Standards
- remuneration of the external auditors
- enhanced manual on Group Internal Audit Practices and Procedures
- significant findings by the internal audit department and recommendations for corrective actions.

RISK MANAGEMENT COMMITTEE

During the financial year to date the Risk Management Committee, chaired by Dr. Allan WONG Chi Yun, comprising the executive directors, held four meetings to review the Group's risk management and internal control systems and their effectiveness. The Committee also ensured that any new and emerging risks are promptly evaluated and appropriate actions are taken by the management. The Committee reports to the Board in conjunction with the Audit Committee.

MODEL CODE OF SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding securities transactions by directors and senior management in relation to the accounting period covered by the Interim Report. After specific enquiry, all directors of the Company confirmed that they have complied with the required standard of dealings set out therein for the six months ended 30th September 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the six months ended 30th September 2009. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

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

Hong Kong, 25th November 2009

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 are Dr. William FUNG Kwok Lun, Mr. Denis Morgie HO Pak Cho, Mr. Michael TIEN Puk Sun and Dr. Patrick WANG Shui Chung.

www.vtech.com
www.irasia.com/listco/hk/vtech