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VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 10.3% to US\$813.9 million
- Profit attributable to shareholders of the Company rose 2.3% to US\$93.6 million
- Strong balance sheet, with net cash of US\$181.1 million
- Interim dividend of US16.0 cents per ordinary share, same as the first half of the last financial year

UNAUDITED INTERIM RESULTS

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 2010 together with the comparative figures for the same period last year as follows:

CONSOLIDATED INCOME STATEMENT

		(Unaudited) Six months ended 30 September		(Audited) Year ended 31 March
	Note	2010 US\$ million	2009 US\$ million	2010 US\$ million
Revenue	3	813.9	738.0	1,532.3
Cost of sales		(552.0)	(483.5)	(972.9)
Gross profit		261.9	254.5	559.4
Selling and distribution costs		(106.7)	(97.0)	(207.3)
Administrative and other operating expenses		(24.9)	(29.3)	(71.2)
Research and development expenses		(28.1)	(27.5)	(56.8)
Operating profit	3 & 4	102.2	100.7	224.1
Net finance income		1.0	1.0	1.4
Profit before taxation		103.2	101.7	225.5
Taxation	5	(10.1)	(10.6)	(20.2)
Profit for the period / year		93.1	91.1	205.3
Attributable to:				
Shareholders of the Company		93.6	91.5	206.5
Non-controlling interests		(0.5)	(0.4)	(1.2)
Profit for the period / year		93.1	91.1	205.3
Earnings per share (US cents)	7			
- Basic		37.8	37.2	83.7
- Diluted		37.6	37.1	83.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 30 September		(Audited) Year ended 31 March
	2010 US\$ million	2009 US\$ million	2010 US\$ million
Profit for the period / year	93.1	91.1	205.3
Other comprehensive income (after tax and reclassification adjustments) for the period/year			
Realisation of hedging reserve	-	0.3	0.3
Exchange translation differences	1.3	7.7	2.9
Surplus arising on revaluation of properties	1.3	-	-
Other comprehensive income for the period / year	2.6	8.0	3.2
Total comprehensive income for the period / year	95.7	99.1	208.5
Attributable to:			
Shareholders of the Company	96.2	99.5	209.6
Non-controlling interests	(0.5)	(0.4)	(1.1)
Total comprehensive income for the period / year	95.7	99.1	208.5

CONSOLIDATED BALANCE SHEET

		(Unaudited) 30 September 2010		(Audited) 31 March 2010
Note	US\$ million	US\$ million	2009	US\$ million
Non-current assets				
	Tangible assets	80.2	103.2	81.4
	Leasehold land payments	4.9	2.1	4.9
	Deferred tax assets	7.5	9.2	5.6
	Investments	0.2	0.2	0.2
		<u>92.8</u>	<u>114.7</u>	<u>92.1</u>
Current assets				
	Stocks	296.8	197.8	159.3
	Debtors, deposits and prepayments	349.3	311.4	211.4
	Taxation recoverable	-	0.4	0.7
	Deposits and cash	181.1	229.9	382.6
		<u>827.2</u>	<u>739.5</u>	<u>754.0</u>
Current liabilities				
	Creditors and accruals	(385.4)	(339.4)	(272.9)
	Provisions	(46.1)	(51.4)	(42.4)
	Taxation payable	(17.9)	(12.6)	(9.6)
		<u>(449.4)</u>	<u>(403.4)</u>	<u>(324.9)</u>
	Net current assets	<u>377.8</u>	<u>336.1</u>	<u>429.1</u>
	Total assets less current liabilities	<u>470.6</u>	<u>450.8</u>	<u>521.2</u>
Non-current liabilities				
	Deferred tax liabilities	(3.9)	(4.0)	(3.7)
	Net assets	<u>466.7</u>	<u>446.8</u>	<u>517.5</u>
Capital and reserves				
	Share capital	12.4	12.3	12.4
	Reserves	453.0	431.8	503.3
	Shareholders' fund attributable to the Company's shareholders	<u>465.4</u>	<u>444.1</u>	<u>515.7</u>
	Non-controlling interests	1.3	2.7	1.8
	Total equity	<u>466.7</u>	<u>446.8</u>	<u>517.5</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 BASIS OF PREPARATION

The Directors are responsible for preparing the Interim Financial Report in accordance with applicable law and regulations. 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 2010 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 judgments, 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 International Auditing Practices Board guidance on International Standards on Review Engagements 2400 "Review of Interim Financial Statements".

The financial information relating to the financial year ended 31 March 2010 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 31 March 2010 are available at the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 14 June 2010.

2 CHANGE IN ACCOUNTING POLICIES

The IASB has issued new and revised IFRS, amendments and 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:

IFRSs (Amendments)	Improvements to IFRSs 2009
IFRS 3 (Revised)	Business combination
IAS 27 (Revised)	Consolidated and separate financial statements
IAS 39 (Amendment)	Eligible hedged items

The improvements to IFRSs 2009 consist of further amendments to existing standards, including amendments to IAS 17 Leases. The amendment to IAS 17 requires the land element of long term leases to be classified as a finance lease rather than an operating lease if it transfers substantially all the risks and rewards of ownership. In accordance with the transitional provisions set out in the amendment to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 April 2010 based on information that existed at the inception of these leases. Leasehold land that qualifies for finance lease classification has been reclassified from leasehold land payments to tangible assets – land and buildings and has been measured using the revaluation model on a retrospective basis. The adoption of revised IAS 17 has led to a reclassification of prepaid leases of US\$1.6 million to tangible assets and has had no significant financial impact to the Group's consolidated income statements for the current and prior periods.

The revised IFRS 3 provides new requirements and detailed guidance on any business combination acquired on or after 1 April 2010.

2 CHANGE IN ACCOUNTING POLICIES *(Continued)*

The revised IAS 27 will affect the accounting for future transactions with non-controlling interests (previously known as “minority interests”). It requires changes in a parent company’s interest in subsidiaries that do not result in changes of control to be accounted for within equity, with no gain or loss recognised and no remeasurement of goodwill. A gain or loss on disposal will be recognised in the income statement only if the disposal results in a loss of control.

The amendment to IAS 39 provides additional guidance on when a financial item can be designated as a hedged item and on assessing hedge effectiveness. It is not expected that this amendment will have a significant effect on the Group’s results or net assets.

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

3 SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by geography. In accordance with IFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments.

- ♦ North America (including the United States and Canada)
- ♦ Europe
- ♦ Asia Pacific
- ♦ Others, which covers sales of electronic products to the rest of the world

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

Each of the above reportable segments primarily derive their 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 and services are manufactured and performed 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 reporting segment based on the location of the external customers. Expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those geographical locations or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is operating profit.

In addition to receiving segment information concerning operating profit, management is provided with segment information concerning revenue, depreciation and amorisation and impairment of assets.

(b) Segment assets

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

3 SEGMENT INFORMATION (Continued)

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

	Reportable segment revenue (Unaudited) Six months ended 30 September		Reportable segment profit (Unaudited) Six months ended 30 September		Reportable segment assets (Unaudited) (Audited)	
	2010	2009	2010	2009	30 September 2010	31 March 2010
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
North America	421.6	441.8	47.2	52.8	210.8	121.1
Europe	298.6	225.6	40.7	32.4	159.6	75.5
Asia Pacific	51.1	42.5	7.8	8.8	540.9	642.3
Others	42.6	28.1	6.5	6.7	1.0	0.7
	<u>813.9</u>	<u>738.0</u>	<u>102.2</u>	<u>100.7</u>	<u>912.3</u>	<u>839.6</u>

(c) Reconciliation of reportable segment assets

	(Unaudited) 30 September 2010 US\$ million	(Audited) 31 March 2010 US\$ million
Assets		
Reportable segment assets	912.3	839.6
Investments	0.2	0.2
Taxation recoverable	-	0.7
Deferred tax assets	7.5	5.6
Consolidated total assets	<u>920.0</u>	<u>846.1</u>

(d) Segment liabilities

Segment liabilities include trade creditors, bills payables, accruals and provisions for electronic product warranties attributable to the manufacturing and sales activities of the individual reportable segments with the exception of deferred tax liabilities and taxation payable.

4 OPERATING PROFIT

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

	(Unaudited) Six months ended 30 September	
	2010 US\$ million	2009 US\$ million
Cost of inventories	552.0	483.5
Depreciation of tangible assets	17.0	17.5
Gain on disposal of tangible assets	(0.1)	-
Net foreign exchange gain	(0.5)	(0.9)
	<u>(0.5)</u>	<u>(0.9)</u>

5 TAXATION

	(Unaudited) Six months ended 30 September	
	2010	2009
	US\$ million	US\$ million
Company and subsidiaries		
Income tax		
- Hong Kong	10.4	12.5
- Overseas	1.7	2.3
Deferred tax		
- Origination and reversal of temporary differences	(2.0)	(4.2)
	10.1	10.6
	10.1	10.6
Income tax	12.1	14.8
Deferred tax	(2.0)	(4.2)
	10.1	10.6
	10.1	10.6

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 30 September	
	2010	2009
	US\$ million	US\$ million
Interim dividend of US16.0 cents (2009: US16.0 cents) per share declared	39.7	39.5
	39.7	39.5

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 14 June 2010, the directors proposed a final dividend of US62.0 cents (2009: US41.0 cents) per ordinary share for the year ended 31 March 2010, which was estimated to be US\$153.1 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2010. The final dividend was approved by shareholders at the Annual General Meeting on 30 July 2010. As a result of shares issuance upon exercise of share options during the period between 1 April 2010 and 30 July 2010, the final dividend paid in respect of the year ended 31 March 2010 totaled US\$153.9 million (2009: US\$101.2 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\$93.6 million (2009: US\$91.5 million).

The calculation of basic earnings per share is based on the weighted average of 247.5 million (2009: 246.2 million) ordinary shares in issue during the period. The calculation of diluted earnings per share is based on 248.7 million (2009: 246.9 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, DEPOSITS AND PREPAYMENTS

Debtors, deposits and prepayments of US\$349.3 million (31 March 2010: US\$211.4 million) include trade debtors of US\$323.6 million (31 March 2010: US\$185.7 million).

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

	(Unaudited) 30 September 2010 US\$ million	(Audited) 31 March 2010 US\$ million
0-30 days	189.1	101.4
31-60 days	92.6	53.8
61-90 days	40.4	28.4
>90 days	1.5	2.1
Total	323.6	185.7

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\$385.4 million (31 March 2010: US\$272.9 million) includes trade creditors of US\$215.4 million (31 March 2010: US\$136.0 million).

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

	(Unaudited) 30 September 2010 US\$ million	(Audited) 31 March 2010 US\$ million
0-30 days	130.3	70.1
31-60 days	47.6	35.8
61-90 days	27.3	20.9
>90 days	10.2	9.2
Total	215.4	136.0

10 COMPARATIVE FIGURES

As a result of the application of improvements to IFRSs 2009, 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 ("Interim Dividend") of US16.0 cents per ordinary share in respect of the six months ended 30 September 2010, payable on 23 December 2010 to shareholders whose names appear on the register of members of the Company as at the close of business on 17 December 2010.

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 13 December 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 December 2010 to 17 December 2010, 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, 10 December 2010.

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

VTech turned in a solid performance in the first half of the financial year 2011. Despite economic uncertainty and rising costs, both revenue and profit increased. Sales were especially strong in Europe, where all product lines saw increases. In North America, our electronic learning products (ELPs) are seeing the benefit of the new platform products we have introduced, while contract manufacturing services (CMS) were boosted by continued gains in professional audio equipment. In Asia Pacific, we doubled sales of our telecommunication (TEL) products.

Results and Dividend

Group revenue for the six months ended 30 September 2010 increased by 10.3% to US\$813.9 million. Growth was driven by Europe, Asia Pacific and other regions. During the period, all our product lines achieved sales increases in Europe. We were also able to make further inroads with our TEL products and CMS in Asia Pacific and other regions, where the Group is actively expanding.

Profit attributable to shareholders of the Company rose 2.3% to US\$93.6 million. Net profit margin fell from 12.4% to 11.5% owing to change in product mix, higher cost of materials, rising labour costs and Renminbi appreciation.

Basic earnings per share increased from US37.2 cents in the first half of the financial year 2010 to US37.8 cents. The Board of Directors has declared an interim dividend of US16.0 cents per ordinary share, which was the same as the dividend paid in the corresponding period last year.

Operations

Rising costs posed a major challenge to the Group in the first half of the financial year 2011. Minimum wage in China has increased by a double digit rate since the middle of the year, while the Renminbi has recently begun to strengthen against the US dollar. Price increases for plastics and other raw materials have led to higher overall cost of materials. Meanwhile, freight costs rose sharply during the period. Furthermore, the launch of new ELPs has necessitated higher spending on advertising and promotion. All these factors have resulted in pressure on margins.

Segment Results

North America

Revenue in North America decreased by 4.6% to US\$421.6 million in the first half of the financial year 2011. The decline was mainly due to lower sales of TEL products, which offset the growth in ELPs and CMS. North America remains the largest market for the Group, accounting for 51.8% of Group revenue.

During the period, sales of TEL products declined by 23.4% to US\$221.8 million. This partly reflects comparison against a very strong first half in the last financial year, when one of our major competitors exited the market, and another suffered a delivery problem. Poor consumer sentiment also contributed to lower sales of our cordless telephones. Nevertheless, we maintain the number one position in the US corded and cordless phone market.

Since September 2009, we have started to introduce small to medium sized business (SMB) telephony systems in the US market. They are being sold through office superstores and value added resellers. The number of our SMB partners is steadily increasing, although the sales contribution in this first half has been small.

Our ELP sales in North America increased by 14.6% to US\$118.7 million in the first half, with growth driven by the launch of new platform and standalone products.

Our two new platform products, V.Reader and MobiGo, have been on retail shelves since June 2010. V.Reader is the world's first interactive e-reading system for children aged between three and seven years. MobiGo is a handheld educational gaming system with touch control for children aged between three and eight years. Retail performance to-date for both products has been good.

Standalone products continued to sell well. As we introduced new items to the market and expanded our shelf space for infant and pre-school products, we saw healthy growth in these categories. Our new line of infant bath toys has been selling especially well.

CMS posted the strongest growth in North America. Sales rose by 66.2% during the first half to US\$81.1 million, despite the relatively weak economy. Professional audio equipment was a major growth driver. Customers are giving us additional business as a result of our high quality products and excellent services. We continued to see growth in commercial solid-state lighting, an emerging business area.

Europe

Revenue in Europe was boosted by gains in all three product lines. Sales increased by 32.4% over the first half of the previous financial year, to US\$298.6 million. Europe accounted for 36.7% of Group revenue.

Sales of our TEL products in Europe grew by 44.9% to US\$111.4 million in the first half, primarily due to restocking by customers and gains in market share. Despite the uncertainty of the European economy, sales growth in the UK, France and Germany was particularly strong, with correspondingly good sell-through. Since February 2010, we have been shipping integrated access devices to customers and sales are steadily increasing.

ELP sales in Europe increased by 13.4% to US\$108.2 million in the first half. Growth was driven mainly by standalone products. As MobiGo only started to hit retail shelves in late August, while V.Reader (which is called Storio in Europe) is only launched in the UK this financial year, their contributions to sales in this period have been limited.

Despite weakness in the economy, the UK proved to be the strongest performing market. The Kidizoom range remained especially popular. The Kidizoom VideoCam was selected as one of the twelve "Dream Toys" for Christmas by the UK's Toy Retailers Association. In contrast, sales in France and Germany started slow during the period.

For CMS, our sales in Europe were up by 48.2% to US\$79.0 million when compared with the first half of the previous financial year. Professional audio equipment was again very strong, with increased orders from existing customers. We also benefited from a new product launch with one of our wireless products customers. Furthermore, we saw solid growth in home appliances and switching mode power supplies.

Asia Pacific

Revenue in Asia Pacific rose 20.2% as compared with the first half of the previous financial year, to US\$51.1 million. This market accounted for 6.3% of Group revenue.

Sales of TEL products increased by 100.0% during this period, to US\$16.2 million. This was partly driven by sales increases in Australia, where we signed a licensing agreement with Telstra in June 2009. VTech is now the direct supplier of Telstra branded fixed line telephones. We also successfully expanded our TEL products into the Japanese market with the acquisition of our first customer.

Sales of ELPs in Asia Pacific declined by 4.9% to US\$9.8 million in the first half. During the period, retailers in some countries sought to work through their inventory, resulting in lower orders.

In China, our first ELP designed specifically for the market was launched in September. It is a curriculum based pen-reading system with downloadable textbook content. The product has been well received. As we are currently building up the distribution channels, sales to-date have been very limited.

CMS achieved modest growth in Asia Pacific in the first half, where Japan remained the dominant market. Revenue from the region increased by 4.1% to US\$25.1 million, driven by medical equipment and LED light bulbs.

Other Regions

Revenue from other regions in the first half of the financial year 2011 increased by 51.6% to US\$42.6 million. This accounted for 5.2% of Group revenue.

The increase was attributable to strong growth in TEL products, as we sold more to the Middle East and Latin America.

Outlook

We face an environment that is unusually uncertain, which makes forecasting for the second half of the financial year difficult. In most of our major markets, unemployment remains high, governments are cutting budgets and consumer sentiment is subdued. Nonetheless, we are cautiously optimistic of achieving revenue growth in the second half, as we expect good momentum in ELPs and CMS to continue. Profitability, however, will be under pressure as rising costs will further affect margins.

We are taking very active measures to counteract cost increases. To reduce the reliance on labour, our production processes are being automated at a faster pace. We have also intensified our product design efforts to optimise material and manufacturing costs.

To mitigate the impact of Renminbi appreciation and to capture the huge potential of the Chinese market, we are stepping up our efforts to increase sales in China, a strategy that provides a natural currency hedge. As mentioned earlier, we have launched our first ELP tailored for the China market during the first half of this financial year.

We will continue to exercise tight control over operating costs to rein in further increases in freight and marketing expenses. Overall, our economies of scale will ensure we remain cost competitive in this challenging operating environment, positioning VTech well for market share gains.

North America and Europe

We expect the performance of TEL products in North America to improve in the second half, as a new category of products, hotel phones, starts to contribute. Our existing line-up of SMB phones will be expanded with new products that offer enhanced features, while more value added resellers will be added to our network to drive sales.

In Europe, we expect TEL products will continue to perform, as we have seen good sell-through with customers in our major European markets. We aim to widen our market leadership through further product innovation. VTech is among the first companies to introduce products using CAT-iq 2.0 technology, an enhancement to DECT that allows cordless phones to be used for VoIP and other Internet-based services such as streaming audio and video.

For ELPs in North America, we expect the solid momentum of our new platform and standalone products to continue. In the US, both MobiGo and V.Reader have been featured in major retailer holiday catalogues. V.Reader has just been selected as one of the "Top Toys" this holiday season by Walmart. However, the US economy is still highly uncertain, and retailers are maintaining very low inventories. Furthermore, competition among platform products is unusually intense this year. We are keeping a watchful eye and working diligently to ensure good sell-through in the upcoming holiday season.

In Europe, our ELP sales in the UK are expected to remain strong, as the market is responding well to the products recently introduced. France is expected to pick up following a sluggish first half, and we expect modest growth from a low base in Spain and the Benelux countries.

CMS should continue to outperform the global EMS market and achieve growth in North America and Europe. Professional audio equipment and commercial solid state lighting will lead the way in North America, as in the first half. In Europe, on top of the already strong power supplies business, further growth will be driven by two new product areas, electric vehicle chargers and solar power inverters.

Asia Pacific and Other Regions

In Asia Pacific and other regions, TEL products should perform well as we enjoy good momentum in many of these markets. Our expansion in China in the final quarter of this financial year will add to revenue in the next financial year.

For ELPs, as retailers in these regions work through their inventory, we expect growth to resume in the second half. Our sales to China should benefit from the expanded distribution channels, as well as the launch of dedicated products.

At CMS, we will continue to step up efforts to open up the Japanese market, as the strength of the Japanese yen may induce more medium sized companies to seek outsourcing with a greater sense of urgency. This could offer considerable potential for VTech to acquire new orders and new customers.

Conclusion

The past six months have not been easy for VTech. Margins contracted owing to rising costs. We faced fierce competition for our ELPs and declining sales of TEL products in the US market. It appears likely that costs will rise further for the remainder of the financial year, making improvement in margins challenging. Furthermore, the present volatility in exchange rates between currencies is expected to continue. Despite this, VTech is in very good shape. Our excellent R&D, strong balance sheet, market leadership position and efficient operations continue to position us strongly to deliver better returns to shareholders going forward.

REVIEW OF FINANCIAL RESULTS

Revenue

Group revenue for the six-months ended 30 September 2010 rose by 10.3% over the same period of the previous financial year to US\$813.9 million. The increase in revenue was largely driven by higher sales in Europe and Asia Pacific as well as strong sales growth in other regions, which contrasted with a decrease in revenue in North America. Sales to North America declined by 4.6% over the corresponding period of the last financial year to US\$421.6 million, representing 51.8% of Group revenue. In Europe, revenue rose by 32.4% to US\$298.6 million, accounting for 36.7% of Group revenue. Revenue from the Asia Pacific market increased by 20.2% to US\$51.1 million, representing 6.3% of Group revenue. Sales to other regions grew by 51.6% to US\$42.6 million, accounting for 5.2% of Group revenue.

The decrease in revenue from North America was mainly due to lower sales of TEL products, which offset an increase in the revenue of ELPs and CMS. Revenue from TEL products in North America was US\$221.8 million, a decrease of 23.4% over the same period of the previous financial year. This partly reflects comparison against a very strong first half in the last financial year, when one of our major competitors exited the market, and another suffered a delivery problem. Poor consumer sentiment also contributed to lower sales of our cordless telephones. For ELPs, revenue grew by 14.6% to US\$118.7 million, mainly driven by the increased sales in standalone products. V.Reader and MobiGo also contributed to the increase in revenue in the current financial period. Revenue from CMS rose by 66.2% to US\$81.1 million. Growth was boosted mainly by higher sales in the area of professional audio equipment and solid state lighting.

The European market achieved sales growth in all three product lines. For TEL products, which we sell in Europe on an ODM basis, revenue grew by 44.9% to US\$111.4 million over the corresponding period of the previous financial year. The increase was primarily attributable to restocking by customers and gains in market share. Sales of ELPs to Europe reached US\$108.2 million, growing by 13.4% over the same period last year. Growth was driven by the increased sales of standalone products. Revenue from CMS rose by 48.2% to US\$79.0 million. The increase was mainly due to strong sales in professional audio equipment as existing customers placed more orders with us. Growth in revenue also came from higher sales in the areas of wireless products, home appliances and switching mode power supplies.

Revenue growth in Asia Pacific was mainly driven by an increase in sales of TEL products. Revenue from TEL products rose by 100.0% over the previous financial period to US\$16.2 million. The growth was partly due to higher sales to Australia following the agreement signed with Telstra in June 2009. For CMS products, revenue from Asia Pacific increased by 4.1% to US\$25.1 million, as a result of growth in sales of LED light bulbs and medical equipment. However, sales of ELPs to Asia Pacific dropped by 4.9% to US\$9.8 million in the current financial period mainly due to a decrease in orders from customers.

For other regions, revenue increased mainly because of higher sales of TEL products. Sales of TEL products to other regions in the first six months of the current financial year were US\$30.8 million, an increase of 90.1% over the same period of financial year 2010. Revenue of ELPs from other regions declined slightly by 0.8% to US\$11.7 million in the current financial period.

Gross Profit/Margin

The gross profit for the six-month period ended 30 September 2010 was US\$261.9 million, an increase of US\$7.4 million or 2.9% compared to the US\$254.5 million recorded in the previous financial period. However, gross profit margin for the period fell from 34.5% to 32.2%. This was mainly attributable to change in product mix, higher cost of materials, rising labour costs and Renminbi appreciation.

Operating Profit/Margin

The operating profit for the six-month period ended 30 September 2010 was US\$102.2 million, an increase of US\$1.5 million or 1.5% over the corresponding period of the previous financial year. The operating profit margin dropped from 13.6% in the previous financial period to 12.6% in the current financial period.

Selling and distribution costs rose by 10.0% from US\$97.0 million in the first six months of the previous financial year to US\$106.7 million in the current financial period. The increase was mainly attributable to increased spending on advertising and promotional activities by the Group and higher freight costs in current financial period. However, as a percentage of Group revenue, selling and distribution costs in the current financial period were 13.1% which was same as the previous financial period, owing to the tight control over operating costs.

Administrative and other operating expenses fell from US\$29.3 million in the previous financial period to US\$24.9 million in the current financial period. This was mainly attributable to lower legal and professional costs in the current financial period. With better foreign exchange risk management, the net exchange gain arising from the Group's global operations in the ordinary course of business was US\$0.5 million in the current financial period. This compared with a net exchange gain of US\$0.9 million recorded in the previous financial period. Administrative and other operating expenses as a percentage of Group revenue, decreased from 4.0% in the previous financial period to 3.1% in the current financial period.

During the first half of the financial year 2011, the research and development expense was US\$28.1 million, an increase of 2.2% over the previous financial period. Research and development expenses as a percentage of Group revenue declined from 3.7% in the previous financial period to 3.5% in the current financial period.

Profit attributable to shareholders and Dividends

The profit attributable to shareholders of the Company for the period ended 30 September 2010 was US\$93.6 million, an increase of US\$2.1 million as compared to the corresponding period of previous financial year.

Basic earnings per share for the period ended 30 September 2010 were US37.8 cents as compared to US37.2 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\$39.7 million.

Liquidity and Financial Resources

The Group's financial resources remain strong. As at 30 September 2010, the Group had deposits and cash of US\$181.1 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 foreign exchange 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

Stock balance as at 30 September 2010 was US\$296.8 million, as compared to US\$159.3 million as at 31 March 2010. The increase in stock level was primarily to cater for increased demand for the Group's products in the second half of the financial year 2011. Furthermore, as lead time of material procurement became longer, we had arranged advance purchase of materials and early production of the Group's products to mitigate materials shortage risks. The turnover days for stock stood at 119 days compared to 98 days in the corresponding period of the last financial year.

Trade debtors balance as at 30 September 2010 was US\$323.6 million, as compared to US\$185.7 million as at 31 March 2010. The increase in trade debtors was mainly due to increased sales of ELPs and CMS products in the first six months of financial year 2011. The turnover days for trade debtors stood at 60 days compared to 55 days in the corresponding period of the last financial year.

Capital Expenditure and Contingencies

For the period ended 30 September 2010, the Group invested US\$12.9 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 Group had no material contingencies.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company 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 30 September 2010, 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 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 30 September 2010 are in line with those practices set out in the Company's 2010 Annual Report.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. Denis Morgie HO Pak Cho, with Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun and Dr. Patrick WANG Shui Chung (appointed on 15 June 2010) as members. All of the members 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.

Mr. Denis HO, as Chairman of the Audit Committee, has the appropriate financial management expertise as required under Listing Rules. The Audit Committee held two meetings during the financial period to the date of this Announcement. The meetings were attended by the Chairman, Chief Compliance Officer, Chief Financial Officer and external auditor. In addition, the Chairman of Audit Committee held regular meetings with the Chief Financial Officer and Chief Compliance Officer. Work performed by the Committee included reviewing the following:

- audited Group financial statements and reports for the year ended 31 March 2010;
- report from the external auditor for the year ended 31 March 2010;
- unaudited Group financial statements for the six months ended 30 September 2010;
- report from the external auditor based on limited agreed upon procedures on the unaudited Group financial statements for the six months ended 30 September 2010;
- accounting principles and practices adopted by the Group;
- implementation of applicable International Financial Reporting Standards;
- remuneration of the external auditor;
- significant findings by the internal audit department and recommendations for corrective actions; and
- respective audit plans of the internal and external auditors.

On 17 November 2010 (the date of this Announcement), the Audit Committee met to review the unaudited Group financial statements and reports for the six months ended 30 September 2010 in conjunction with the Company's external auditor, senior management and internal audit department before recommending them to the Board for consideration and approval.

The Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control. The Audit Committee reviews the process by which the Group evaluates its control environment and risk assessment process, and the way in which business and control risks are managed. Based on the information received from the Company's management, external auditor and internal audit department, the Audit Committee is satisfied that the overall financial and operational controls for the Group continues to be effective and adequate.

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 financial 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 in the Model Code for the six months ended 30 September 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company has not redeemed any of its shares during the six months ended 30 September 2010. 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, 17 November 2010

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.

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