VTech Holdings Limited Interim Report 中期報告書 2007/2008

for the six months ended 30th September 2007
截至二零零七年九月三十日止六個月

HKSE: 303 | LSE: VTH

Corporate Information

Board of Directors

Executive Directors

Allan WONG Chi Yun
(Chairman and Group Chief Executive Officer)
Edwin YING Lin Kwan
PANG King Fai

Independent Non-Executive Directors

Raymond CH'IEN Kuo Fung
William FUNG Kwok Lun
Michael TIEN Puk Sun
Patrick WANG Shui Chung

Audit Committee

Raymond CH'IEN Kuo Fung *(Chairman)*
William FUNG Kwok Lun
Michael TIEN Puk Sun

Nomination Committee

William FUNG Kwok Lun *(Chairman)*
Raymond CH'IEN Kuo Fung
Michael TIEN Puk Sun
Patrick WANG Shui Chung
Allan WONG Chi Yun

Remuneration Committee

Michael TIEN Puk Sun *(Chairman)*
Raymond CH'IEN Kuo Fung
William FUNG Kwok Lun

Company Secretary

CHANG Yu Wai

Qualified Accountant

Shereen TONG Ka Hung

Registered Office

Clarendon House
Church Street
Hamilton HM11
Bermuda

Principal Office

23rd Floor, Tai Ping Industrial Centre, Block 1
57 Ting Kok Road
Tai Po
New Territories
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank

Auditors

KPMG
Certified Public Accountants
Hong Kong

VTech had a satisfactory performance in the first half of the financial year 2008, with solid growth in net profit. The Group achieved increased revenue from its telecommunication products (TEL) and electronic learning products (ELP) businesses in Europe, and improved net margins further, despite continued cost pressures.

Results

Group Performance Review

Group revenue for the six months ended 30th September 2007 increased by 2.8% over the same period of the financial year 2007 to US$734.1 million. Profit attributable to shareholders rose 31.5% from US$65.8 million to US$86.5 million. Earnings per share increased by 30.4% to US36.0 cents, compared to US27.6 cents in the corresponding period last year.

Higher Margin

The Group's net margin improved from 9.2% to 11.8% in the first half of the financial year 2008, despite pressure from rising labour costs and the appreciation of the Renminbi. The improvement was mainly due to exchange gains and higher gross profit margin, as we were able to offset the cost increases through increased efficiency in our manufacturing process and better product engineering. Our success in these areas led gross profit margin to improve by 1.8 percentage points over the same period last year to 33.7% in the first half of the financial year 2008.

Strong Liquidity Position

The Group's liquidity position remains strong and it is substantially debt-free, with net cash as at 30th September 2007 amounting to US$114.9 million.

Increased Dividend

In view of the continued growth in profitability and the Group's solid financial position, the Board of Directors (the "Board") has declared an interim dividend of US12.0 cents per ordinary share, compared to US9.0 cents per ordinary share in the corresponding period last year.

Strong Growth in Europe and Emerging Markets at TEL

Revenue at the TEL business declined slightly by 0.9% over the same period last year to US$356.1 million. During the period, the business accounted for 48.5% of Group revenue.

The main factor behind the slight revenue decline was a weaker than expected market in North America, where revenue declined by 12.5% to US$253.6 million during the period. The US cordless phone market has slowed in the face of declining housing starts and fewer promotions offered by retailers for this category of product.

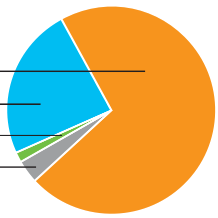
Despite the revenue decline, the branded business in North America continued to gain market share as consumers responded well to our new products, especially the DECT 6.0 range. The DECT 6032 model was named by *Good Housekeeping* magazine as its number one cordless phone, highlighting its slim, futuristic design and crystal clear voice quality.

Good growth was also seen from a new range of 5.8GHz products. The VTech ia5824 5.8GHz phone was the only cordless phone to receive a *Consumer Report* "Best Buy" rating this year. It is a good example of how we are using our engineering know-how to enhance product quality, reduce cost and benefit consumers.

Outside the North American market, where we have adopted mainly an Original Design Manufacturing (ODM) strategy, revenue rebounded markedly. In Europe, revenue increased by 43.3% to US$86.7 million as the market recovered from excess inventory and existing customers ordered more from us. In Asia Pacific and other regions, revenue surged by 118.8% and 68.5% to US$3.5 million and US$12.3 million respectively. This impressive growth was due to our success in opening up new markets, as well as expanding our presence in existing markets through partnerships with major importers.

TEL Revenue by Region
for the six months ended 30th September 2007

	%	US$ million
North America	**71.2**	**253.6**
Europe	**24.3**	**86.7**
Asia Pacific	**1.0**	**3.5**
Others	**3.5**	**12.3**
Total	**100.0**	**356.1**



Chairman's Statement

Continued Growth at ELP

The ELP business continued to perform well in the first half of the financial year 2008, with revenue increasing 17.4% to US$262.1 million, equivalent to 35.7% of Group revenue.

Growth was mainly driven by traditional ELPs as we continued to reap the benefit of increased shelf space. The addition of a new platform, the Whiz Kid PC Learning System, also contributed to the increase in revenue.

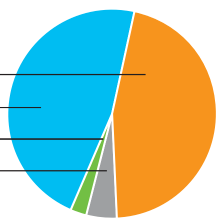
During the first six months of the financial year, sales of the entire V.Smile range – comprising the basic V.Smile, V.Smile Pocket, V.Smile Baby, V.Flash, together with all cartridges and accessories – were in line with management expectations. The basic V.Smile console, now in its fourth year, has been upgraded by the addition of two new features, a sing-along microphone and writing joystick. We also introduced new titles to the V.Smile Smartridge library, including Shrek the Third, Disney/Pixar's Ratatouille, Cranium, Go Diego Go and Backyardigans. The enhanced V.Smile also received *Creative Child's* Toy of the Year Award in the educational play for babies and toddlers category, as well as the National Parenting Center's "2007 Seal of Approval".

Geographically, Europe recorded a higher sales growth, with revenue increasing by 20.9% to US$123.0 million as VTech maintained its dominant position in the region. In North America, revenue rose by 18.3% to US$120.5 million.

ELP Revenue by Region

for the six months ended 30th September 2007

	%	US$ million
North America	**46.0**	**120.5**
Europe	**46.9**	**123.0**
Asia Pacific	**2.5**	**6.5**
Others	**4.6**	**12.1**
Total	**100.0**	**262.1**



Consolidation for CMS

Following several years of exceptional growth, the contract manufacturing services (CMS) business saw revenue decline by 11.7% to US$115.9 million in the first half of the financial year 2008, representing 15.8% of Group revenue.

The decrease in revenue reflects a very strong first half in the previous financial year. Global economic growth has since moderated somewhat, prompting customers to slow orders and reduce inventory. This is part of a much wider phenomenon affecting the entire global electronic manufacturing services (EMS) industry.

We did, however, sign a number of new customers and continued to develop our Japan operations, bringing on stream our dedicated facility and furthering negotiations with a number of potential Japanese customers.

We also continued to push ahead with projects designed to raise productivity and position us for future growth. The new CMS manufacturing facility began operations in September this year, increasing the capacity of the business by some 50%, while in the same month we launched a six sigma project designed to improve operational efficiency.

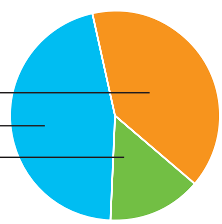
Professional audio equipment and switching mode power supplies continued to be the leading product categories of the business, accounting for 29.4% and 24.1% of the total CMS revenue, followed by communications products and home appliances. Europe remained the leading source of revenue, representing 45.9% of the total CMS revenue, followed by North America at 39.8% and Asia Pacific at 14.3%.

Our ability to serve customers well again earned us a service award from an important customer, in appreciation of our dedication and hard work in helping the company to launch its new product.

CMS Revenue by Region

for the six months ended 30th September 2007

	%	US$ million
North America	**39.8**	**46.1**
Europe	**45.9**	**53.2**
Asia Pacific	**14.3**	**16.6**
Total	**100.0**	**115.9**



Toy Safety

Considerable attention has been given this year to the issue of toy safety, with the products of a number of toy suppliers involved in safety recalls.

VTech, which manufactures the majority of its ELPs in-house, is able to maintain strict control over its product quality. We have not been subject to any product recalls and product safety has always been our top priority.

Since the recalls, however, we have conducted a comprehensive review of our quality control procedures and stepped up the frequency of testing, from raw materials to finished products. We were able to achieve this without materially raising our costs or causing any delay in shipment.

VTech will continue its strategy of emphasizing in-house manufacturing. Through rigorous testing and strict controls, we will ensure that all VTech's products comply with the highest global safety standards.

Outlook

The recent problems in the global credit markets, high oil prices, the downturn of the US housing market and the slow growth of US consumer spending, are already reflected in weaker point of sales data at both the TEL and ELP businesses in the United States. We anticipate lower sales in the United States for the upcoming holiday season, as compared to last year.

We nonetheless expect continued sales growth in Europe during the second half of the financial year and hence should achieve modest overall growth in both Group revenue and profit for the full year.

Despite a slightly soft first half at the TEL business, we are forecasting a sales increase for the full year, with growth driven by strong demand in Canada, Europe, Asia Pacific and emerging markets. In North America, to strengthen our leadership position further, we will continue to introduce new products with innovative designs and new technology. On the design front, the DECT 6.0 range has proven very popular and we will introduce more products along this line. In technology, we will start to ship the internet-enabled infoPhone™ to our first customer, a major US service provider. As this market builds, we intend to expand both the customer base and product portfolio.

Growth at the ELP business should continue, allowing it to achieve a revenue increase for the full year. Our 2008 product line-up has already been previewed to the trade and the response has been encouraging. Europe is expected to perform well in the second half, while prospects in the United States will very much depend on the overall economy.

Despite the lower revenue in the first half of the financial year 2008, we still expect the CMS business to achieve growth for the full year. We expect sales for the business to pick up in the second half of the financial year, as we have already seen more orders from existing customers.

In conclusion, VTech has a solid foundation for growth, with a market leading position and innovative products, combined with cost effective and efficient operations. We will continue to build on this foundation, growing our businesses through product innovation, expansion of market share, developing emerging markets and pursuing new opportunities within our core businesses.

Allan WONG Chi Yun

Chairman

Hong Kong, 14th November 2007

Revenue

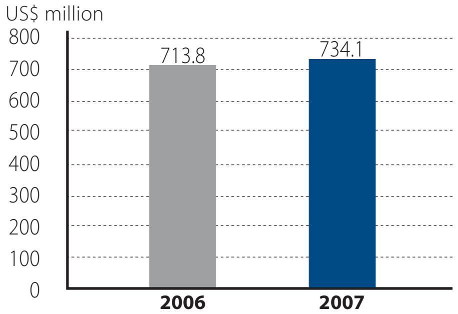
The Group revenue for the six-month period ended 30th September 2007 increased by 2.8% over the corresponding period of the previous financial year to US$734.1 million as a result of an increase in revenue at the ELP business, which had offset the decreases in revenue at the TEL and CMS businesses.

The TEL business recorded a slight decrease in revenue of 0.9% to US$356.1 million. In North America, VTech continued to gain market share as new products, especially the DECT 6.0 range, have been well received by customers. However, owing to a weaker than expected market, revenue from North America declined by 12.5% over the same period of the last financial year. Outside the North American market, revenue rebounded markedly. In Europe, revenue rose by 43.3% as the market continued to recover from excess inventory and existing customers increased their orders. In Asia Pacific and other regions, revenue surged by 118.8% and 68.5% respectively. This impressive growth was due to our success in opening up new markets, as well as expanding our presence in existing markets through partnerships with major importers.

The ELP business continued to record growth in revenue, which increased by 17.4% compared with the same period of the last financial year. The growth was mainly driven by traditional ELPs. The launch of new products during the period, such as the Whiz Kid PC Learning System, also contributed to the growth. During the first six months of the financial year, sales of the entire V.Smile range were in line with management expectations.

Group Revenue

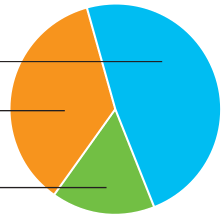
for the six months ended 30th September



Group Revenue by Product Line

for the six months ended 30th September 2007

	%	US$ million
Telecommunication Products	**48.5**	**356.1**
Electronic Learning Products	**35.7**	**262.1**
Contract Manufacturing Services	**15.8**	**115.9**
Total	**100.0**	**734.1**



The CMS business recorded a decline in revenue of 11.7% compared with the first six months of the last financial year, which was exceptionally strong. Global economic growth has moderated in the current financial period, leading to reduced order from customers.

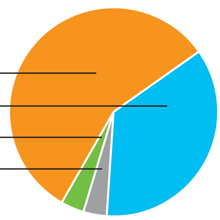
The Group's revenue from its three core businesses was: 48.5% from the TEL business, 35.7% from the ELP business and 15.8% from the CMS business.

North America continues to be the largest market for the Group. Revenue from this market accounted for 57.2% of Group revenue for the first half of the financial year 2008. Europe and Asia Pacific accounted for 35.8% and 3.6% respectively. This change in the relative contribution of the three regions mainly reflects the increased revenue from the European operations of the TEL and ELP businesses.

Group Revenue by Region

for the six months ended 30th September 2007

	%	US$ million
North America	**57.2**	**420.2**
Europe	**35.8**	**262.9**
Asia Pacific	**3.6**	**26.6**
Others	**3.4**	**24.4**
Total	**100.0**	**734.1**



Gross Profit/Margin

The gross profit for the six-month period ended 30th September 2007 was US$247.5 million, an increase of US$19.5 million compared to the US$228.0 million recorded in the previous financial period. Gross profit margin for the period increased from 31.9% to 33.7%. Although all businesses continued to suffer from the negative impact of rising labour costs in China and the appreciation of the Renminbi, the Group was able to improve the gross profit margin as management implemented measures to enhance operational efficiency in the manufacturing process, and with better product engineering.

Operating Profit/Margin

The operating profit for the six-month ended 30th September 2007 was US$92.7 million, an increase of US$22.3 million or 31.7% over the corresponding period of last financial year. The improvement mainly came from an increase in gross profit resulting from the growth in the Group's overall revenue and the improvement in gross profit margin. The operating profit margin also improved from 9.9% in the previous financial period to 12.6% in the current financial period.

Selling and distribution costs decreased by 1.5% from US$107.8 million in the first six months of the previous financial period to US$106.2 million in the current financial period. The Group has incurred higher spending on advertising and promotional activities in the first half of the financial year 2008 for the promotion of ELPs. However, tight control over other operating costs resulted in a decrease of overall selling and distribution costs. As a percentage of Group revenue, selling and distribution costs decreased from 15.1% in the previous financial period to 14.5% in the current financial period.

Administrative and other operating expenses decreased from US$27.3 million in the previous financial period to US$22.2 million in the current financial period. An exchange gain of US$8.0 million was recorded under administrative and other operating expenses in the current financial period because of the appreciation of the Euro, Sterling and Canadian dollar against the US dollar. This contrasted with a significantly smaller exchange gain of US$0.4 million recorded in the previous financial period. Excluding the effect of exchange differences, the administrative and other operating expenses increased by US$2.5 million, mainly owing to an increase in employee related costs as the business expanded. The 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.

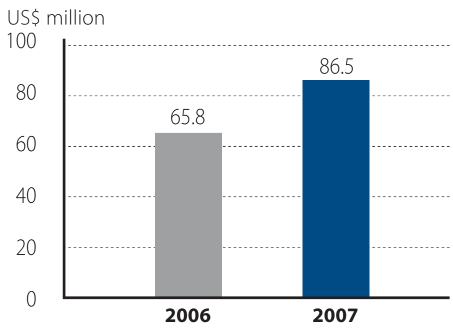
Research and development (R&D) activities are vital for the long-term development of the Group. During the first half of the financial year 2008, the Group spent US$26.4 million on R&D activities, which represented around 4% of total Group revenue.

Net Profit and Dividend

The profit attributable to shareholders for the period ended 30th September 2007 was US$86.5 million, an increase of US$20.7 million as compared to the corresponding period of the previous financial year.

Basic earnings per share for the period ended 30th September 2007 were US36.0 cents as compared to US27.6 cents in the first half of the previous financial year. Since the balance sheet date, the directors have proposed an interim dividend of US12.0 cents per share, which aggregates to US$28.9 million.

Profit Attributable to Shareholders
for the six months ended 30th September



Liquidity and Financial Resources

The Group's financial resources remain strong. As at 30th September 2007, the Group had cash and deposits with banks of US$114.9 million and is substantially debt-free, except for an insignificant amount of borrowing in the form of a fixed-interest bearing equipment loan which is denominated in Euro and repayable within two years. The Group has adequate liquidity to meet its current and future working capital requirements.

Treasury Policies

The objective of the Group's treasury policies is to manage its exposure to fluctuation in foreign currency exchange rates arising from the Group's global operations. It is our policy not to engage in speculative activities. Forward foreign exchange contracts are used to hedge certain exposures.

Working Capital

The levels of stock and trade debtors as at 30th September 2007 were US$225.7 million and US$338.8 million respectively, as compared to US$124.1 million and US$178.7 million as at 31st March 2007. The increase in stock level was primarily to cater for the increased demand for ELPs for the coming holiday season in the second half of the financial year. The increase in trade debtors was mainly due to increased in sales at the ELP business in the first six months period. The increase in sales at the TEL business in Europe also led to a higher trade debtors balance because European customers in our ODM business tend to have a longer settlement period. The turnover days for stocks and trade debtors were 112 days and 63 days respectively, compared to 119 days and 56 days in the corresponding period of the last financial year.

Capital Expenditure and Contingencies

For the period ended 30th September 2007, the Group invested US$17.9 million in the construction of buildings, 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.

Consolidated Financial Statements

Consolidated Income Statement

	Note	(Unaudited) Six months ended 30th September 2007 US$ million	2006 US$ million	(Audited) Year ended 31st March 2007 US$ million
Revenue	2	**734.1**	713.8	1,463.8
Cost of sales		**(486.6)**	(485.8)	(923.8)
Gross profit		**247.5**	228.0	540.0
Selling and distribution costs		**(106.2)**	(107.8)	(238.6)
Administrative and other operating expenses		**(22.2)**	(27.3)	(62.2)
Research and development expenses		**(26.4)**	(22.5)	(45.2)
Operating profit	2&3	**92.7**	70.4	194.0
Net finance income		**5.3**	4.1	7.5
Share of results of associates		**–**	–	–
Profit before taxation		**98.0**	74.5	201.5
Taxation	4	**(11.5)**	(8.7)	(18.6)
Profit attributable to shareholders		**86.5**	65.8	182.9
Interim dividend	5	**28.9**	21.5	21.5
Special dividend	5		71.7	71.7
Final dividend	5			98.0
Earnings per share (US cents)	6			
– Basic		**36.0**	27.6	76.6
– Diluted		**35.3**	27.1	75.1

Consolidated Statement of Changes in Shareholders' Funds

	Note	(Unaudited) Six months ended 30th September 2007 US$ million	2006 US$ million	(Audited) Year ended 31st March 2007 US$ million
Shareholders' funds at beginning of period		**343.3**	306.2	306.2
Exercise of share options		**3.7**	0.3	0.4
Realisation of hedging reserve		**0.5**	1.1	4.1
Fair value losses on hedging during the period		**(1.7)**	(0.9)	(4.7)
Capital reserve on employee share option scheme		**0.4**	0.6	1.2
Exchange translation differences		**5.0**	3.5	8.5
Net gains and (losses) not recognised in the income statement		**7.9**	4.6	9.5
Profit attributable to shareholders		**86.5**	65.8	182.9
Dividends approved and paid during the period	5	**(98.8)**	(62.1)	(155.3)
Shareholders' funds at end of period		**338.9**	314.5	343.3

Consolidated Balance Sheet

	Note	(Unaudited) 30th September 2007 US$ million	2006 US$ million	(Audited) 31st March 2007 US$ million
Non-current assets				
Tangible assets	7	**84.4**	74.5	78.4
Leasehold land payments		**3.7**	3.7	3.7
Deferred tax assets		**11.1**	8.6	5.5
Investments		**0.2**	0.2	0.2
		99.4	87.0	87.8
Current assets				
Stocks		**225.7**	238.7	124.1
Debtors and prepayments	8	**369.2**	307.2	203.4
Taxation recoverable		**0.2**	0.8	1.6
Cash and deposits with banks		**114.9**	126.6	246.5
		710.0	673.3	575.6
Current liabilities				
Creditors and accruals	9	**(391.8)**	(365.5)	(256.5)
Provisions		**(49.7)**	(58.4)	(47.9)
Taxation payable		**(24.7)**	(17.3)	(11.5)
		(466.2)	(441.2)	(315.9)
Net current assets		**243.8**	232.1	259.7
Total assets less current liabilities		**343.2**	319.1	347.5
Non-current liabilities				
Deferred tax liabilities		**(4.3)**	(4.6)	(4.2)
Net assets		**338.9**	314.5	343.3
Capital and reserves				
Share capital	10	**12.0**	11.9	11.9
Reserves	11	**326.9**	302.6	331.4
Shareholders' funds		**338.9**	314.5	343.3

Condensed Consolidated Cash Flow Statement

	(Unaudited) Six months ended 30th September 2007 US$ million	2006 US$ million	(Audited) Year ended 31st March 2007 US$ million
Net cash (used in)/generated from operating activities	**(22.7)**	(37.2)	189.3
Net cash used in investing activities	**(27.8)**	(20.5)	(37.0)
Net cash used in financing activities	**(95.1)**	(61.8)	(154.9)
Effect of exchange rate changes	**4.0**	3.7	6.7
(Decrease)/increase in cash and cash equivalents	**(141.6)**	(115.8)	4.1
Cash and cash equivalents at beginning of period	**246.5**	242.4	242.4
Cash and cash equivalents at end of period	**104.9**	126.6	246.5
Analysis of the balance of cash and cash equivalents			
Cash and deposits with banks in the consolidated balance sheet	**114.9**	126.6	246.5
Less: Bank deposits with maturity greater than three months	**(10.0)**	–	–
Cash and cash equivalents in the condensed consolidated cash flow statement	**104.9**	126.6	246.5

The notes on pages 7 to 10 form an integral part of these consolidated financial statements.

1 Basis of Preparation

The Directors are responsible for preparing the Interim Report, including the consolidated financial statements in accordance with applicable law and regulations. The unaudited interim consolidated financial statements have 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 – Interim Financial Reporting adopted by the International Accounting Standards Board (the "IASB").

The financial information relating to the financial year ended 31st March 2007 included in the interim consolidated financial statements does not constitute the Company's annual financial statements prepared under International Financial Reporting Standard ("IFRS") for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31st March 2007 are available at the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 20th June 2007.

The same accounting policies adopted in the 2007 annual financial statements have been applied to the interim consolidated financial statements.

These financial statements are prepared on the historical cost basis as modified by the revaluation of certain properties.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The interim consolidated financial statements have not been audited or reviewed by the auditors pursuant to the Auditing Practices Board guidance on "Review of Interim Financial Information".

2 Segment Information

Revenue represents turnover of the Group derived from the amounts received and receivable for sale of goods and rendering of services to third parties.

The principal activity of the Group is the design, manufacture and distribution of consumer electronic products. The directors consider that these activities constitute one business segment since these activities are related and are subject to common risks and returns.

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

	(Unaudited) Six months ended 30th September			
	Revenue 2007 US$ million	Revenue 2006 US$ million	**Operating profit 2007 US$ million**	Operating profit 2006 US$ million
North America	**420.2**	436.2	**42.1**	40.3
Europe	**262.9**	229.3	**40.9**	18.1
Asia Pacific	**26.6**	29.2	**4.8**	7.2
Others	**24.4**	19.1	**4.9**	4.8
	734.1	713.8	**92.7**	70.4

3 Operating Profit

The operating profit is arrived at after charging the following:

		(Unaudited) Six months ended 30th September	
	Note	**2007 US$ million**	2006 US$ million
Depreciation charges	7	**13.2**	11.2
Loss on disposal of tangible assets		**0.2**	–

4 Taxation

	(Unaudited) Six months ended 30th September 2007 US$ million	2006 US$ million
Company and subsidiaries		
Income tax		
– Hong Kong	**13.3**	11.6
– Overseas	**3.7**	0.1
Deferred tax		
– Origination and reversal of temporary differences	**(5.5)**	(3.0)
	11.5	8.7
Income tax	**17.0**	11.7
Deferred tax	**(5.5)**	(3.0)
	11.5	8.7

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

5 Dividends

(a) Dividends attributable to the period:

	(Unaudited) Six months ended 30th September 2007 US$ million	2006 US$ million
Interim dividend of US12.0 cents (2006: US9.0 cents) per share declared	**28.9**	21.5
Special dividend in respect of 2006 of US30.0 cents per share declared	**–**	71.7
	28.9	93.2

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

(b) The final dividend of US41.0 cents (2006: US26.0 cents) per ordinary share for the year ended 31st March 2007, but proposed after that date, was estimated to be US$98.0 million at the time, payable to shareholders, whose names appeared on the register of members of the Company at the close of business on 3rd August 2007. This final dividend was approved by shareholders at the Annual General Meeting on 3rd August 2007. As a result of shares issuance upon exercise of share options during the period between 1st April 2007 and 3rd August 2007, the final dividend paid in respect of the year ended 31st March 2007 totaled US$98.8 million (2006: US$62.1 million).

6 Earnings per Share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US$86.5 million (2006: US$65.8 million).

The basic earnings per share is based on the weighted average of 240.3 million (2006: 238.9 million) ordinary shares in issue during the period. The diluted earnings per share is based on 244.6 million (2006: 243.3 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.

7 Tangible Assets

	(Unaudited) 30th September 2007 US$ million
At beginning of period	**78.4**
Additions	**17.9**
Disposals	**(0.3)**
Depreciation	**(13.2)**
Effect of the exchange rate changes	**1.6**
At end of period	**84.4**

8 Debtors and Prepayments

Debtors and prepayments of US$369.2 million (31st March 2007: US$203.4 million) includes trade debtors of US$338.8 million (31st March 2007: US$178.7 million).

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

	(Unaudited) 30th September 2007 US$ million	(Audited) 31st March 2007 US$ million
0-30 days	**201.2**	83.6
31-60 days	**99.0**	49.1
61-90 days	**33.9**	27.4
>90 days	**4.7**	18.6
Total	**338.8**	178.7

The majority of the Group's sales is 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$391.8 million (31st March 2007: US$256.5 million) includes trade creditors of US$194.2 million (31st March 2007: US$101.9 million).

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

	(Unaudited) 30th September 2007 US$ million	(Audited) 31st March 2007 US$ million
0-30 days	**82.7**	51.6
31-60 days	**66.3**	26.2
61-90 days	**31.0**	15.1
>90 days	**14.2**	9.0
Total	**194.2**	101.9

10 Share Capital and Share Options

Share Capital

	(Unaudited) 30th September 2007 US$ million	(Audited) 31st March 2007 US$ million
Authorised		
Ordinary shares: 400,000,000 (31st March 2007: 400,000,000) of US$0.05 each	**20.0**	20.0

	No. of shares	**(Unaudited) 30th September 2007 US$ million**	No. of shares	(Audited) 31st March 2007 US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At beginning of period/year	**239,112,133**	**11.9**	238,773,133	11.9
Issued shares upon exercise of share options	**1,901,000**	**0.1**	339,000	–
At end of period/year	**241,013,133**	**12.0**	239,112,133	11.9

Note: Subsequent to the balance sheet date and up to 14th November 2007, the issued and fully paid share capital of the Company was increased to 241,027,133 ordinary shares upon exercise of 14,000 share options at the exercise price of HK$15.0 per share.

Share Options

Pursuant to the share option scheme adopted on 10th August 2001 (the "2001 Scheme"), the directors are authorised, at any time during the 10 years from the date of approval of the 2001 Scheme, to grant options to certain employees of the Company or subsidiaries of the Group, including executive directors (but excluding non-executive directors) to subscribe for shares in the Company at prices to be determined by the directors in accordance with the terms of the 2001 Scheme.

As at 30th September 2007, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 4,974,000, which represented approximately 2.1% of the issued share capital of the Company. The movements in the number of share options under the 2001 Scheme during the period were as follows:

Date of grant (Note 1)	**Exercise price**	**Exercisable period** (Note 2)	**Balance in issue at 1st April 2007**	**Number of share options exercised during the period**	**Balance in issue at 30th September 2007**
20th April 2004 to 19th May 2004	HK$15.0	20th April 2007 to 19th May 2009	1,965,000	(1,901,000) (Note 3)	**64,000**
19th November 2004	HK$11.03	22nd November 2007 to 21st November 2009	1,500,000	–	**1,500,000**
23rd March 2005 to 22nd April 2005	HK$11.41	23rd March 2008 to 22nd March 2010	1,410,000	–	**1,410,000**
12th August 2005	HK$19.3	26th August 2008 to 25th August 2010	2,000,000	–	**2,000,000**
			6,875,000	(1,901,000)	**4,974,000**

Note 1: Due to the large number of employees participating in the 2001 Scheme, the relevant information can only be shown within a reasonable range in this Interim Report. For options granted to employees, the options were granted during the underlying periods for acceptance of such options by the employees concerned.

Note 2: As one of the conditions of grant, the employees concerned agreed with the Company that the options shall not be exercisable within the period of 36 months from the date on which such options were deemed to be granted and accepted and shall not be exercisable after 60 months from the date on which such options were deemed to be granted and accepted. However, options shall be automatically vested to the grantees when the grantees reach 60 years of age.

Note 3: An aggregate of 1,901,000 share options were exercised at the exercise price of HK$15.0 during the financial period. The weighted average closing prices of the shares of the Company immediately before the dates on which the options were exercised and at the dates of exercise were HK$63.21 per share and HK$63.19 per share respectively.

Note 4: No options were granted, lapsed or cancelled during the period.

10 Share Capital and Share Options (Continued)

Share Options (Continued)

Share option expenses charged to the consolidated income statement are determined with the Black-Scholes model based on the following assumptions:

	Date of grant			
	20th April 2004	19th November 2004	23rd March 2005	12th August 2005
Fair value of each share option as of the date of grant	HK$5.1	HK$2.6	HK$3.1	HK$5.4
Closing price at the date of grant	HK$15.0	HK$10.9	HK$11.4	HK$19.3
Exercise price	HK$15.0	HK$11.03	HK$11.41	HK$19.3
Expected volatility	50.7%	49.1%	47.5%	48.0%
Annual risk-free interest rate	3.5%	2.8%	4.0%	3.9%
Expected average life of options	3.5 years	3.5 years	3.5 years	3.5 years
Expected dividend yield	2.6%	7.1%	5.5%	5.1%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the one year immediately preceding the grant date.

11 Reserves

	(Unaudited) 30th September 2007 US$ million	(Audited) 31st March 2007 US$ million
Share premium	**95.5**	90.7
Other properties revaluation reserve	**6.1**	6.1
Revenue reserve	**218.2**	230.5
Exchange reserve	**6.3**	1.3
Capital reserve	**2.0**	2.8
Hedging reserve	**(1.2)**	–
	326.9	331.4

12 Capital Commitments

	(Unaudited) 30th September 2007 US$ million	(Audited) 31st March 2007 US$ million
Capital commitments for property, plant and equipment:		
Authorised but not contracted for	**16.1**	46.7
Contracted but not provided for	**37.2**	12.8
	53.3	59.5

13 Other Commitment

During the period, the Group renewed the Brand License Agreement which was expiring 31st March 2010 whereby a wholly-owned subsidiary of the Group is required to make royalty payments to AT&T Inc., calculated as a percentage of net sales of the relevant categories of products, subject to certain minimum aggregate royalty payments. The percentage of net sales payable varies over time and between products. There is no maximum royalty payment. The minimum royalty payment for the year ending 31st March 2008 would be US$1.75 million. Thereafter annual minimum royalty payment would be determined on a percentage of preceding year's earned royalty payment (calculated on preceding year's net sales payable). The renewed Brand License Agreement was extended to 31st March 2015 which may be further extended for an additional term of five years.

14 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet effective for the Annual Accounting period ending 31st March 2008

Up to the date of issue of these interim financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31st March 2008 and which have not been adopted in these interim financial statements:

	Effective for accounting period beginning on or after
IFRS 8, Operating Segments	1 January 2009
IAS 23 (March 2007), Borrowing costs	1 January 2009
IFRIC 12, Service concession arrangements	1 January 2008
IFRIC 13, Customer loyalty programmes	1 July 2008
IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these interim financial statements, the Group believes that the adoption of the above amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

15 Approval of Interim Report

The interim report was approved by the Board on 14th November 2007.

Interim Dividend

The Board has declared an interim dividend in respect of the six months ended 30th September 2007 of US12.0 cents per ordinary share to shareholders whose names appear on the register of members of the Company as at the close of business on 14th December 2007.

The interim dividend will be payable on 21st December 2007 in United States dollars save that those shareholders with a registered address in Hong Kong will receive the equivalent amount in Hong Kong dollars and those registered in the United Kingdom will receive the equivalent amount in Sterling both calculated at the rates of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its mid rate of exchange prevailing on 10th December 2007.

Closure of Register of Members

The register of members of the Company will be closed from 10th December 2007 to 14th December 2007, 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 not later than 4:00 p.m., the local time of the share registrars, on Friday, 7th December 2007.

The principal registrar is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke HM08, Bermuda, the branch registrar in the United Kingdom is Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom, and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Share Capital and Share Options

Details of the movements in share capital and share options of the Company are shown in note 10 to the consolidated financial statements.

Directors' Interests and Short positions in Shares, Underlying Shares and Debentures

As at 30th September 2007, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company as recorded in the registers maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance of Hong Kong (the "SFO") and according to the record of notification made pursuant to Rule 3 of the Disclosure Rules and Transparency Rules ("DTR") of the Financial Services Authority ("FSA") were as follows:

(1) Interests in the Company

Name of director	Number of shares			Equity derivatives (share options)	Total	Approximate percentage of shareholding
	Personal interest	Family interest	Other interest			
Allan WONG Chi Yun	15,654,393	3,968,683	74,101,153 (Note 1)	2,000,000	95,724,229	39.7%
Edwin YING Lin Kwan	200	–	–	–	200	–
PANG King Fai	135,000	–	–	50,000	185,000	0.1%
Raymond CH'IEN Kuo Fung	–	–	–	–	–	–
William FUNG Kwok Lun	1,041,630	–	–	–	1,041,630	0.4%
Michael TIEN Puk Sun	–	–	423,000 (Note 2)	–	423,000	0.2%
Patrick WANG Shui Chung	–	–	–	–	–	–

Note 1: The shares were held as to 1,416,325 directly by Honorex Limited ("Honorex"), as to 65,496,225 directly by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 directly by Twin Success Pacific Limited ("Twin Success"). Conquer Rex was a wholly owned subsidiary of Honorex. Each of Conquer Rex, Honorex and Twin Success was a wholly owned subsidiary of Trustcorp Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust of which Mr. Allan WONG Chi Yun, a director of the Company, was the founder. Trustcorp Limited was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares.

Note 2: The shares were registered in the name of Romsley International Limited which was a wholly owned subsidiary of J.P. Morgan Trust Company (Bahamas) Limited as the trustee of The Joy Plus Trust. The Joy Plus Trust is a discretionary trust in which Mr. Michael TIEN Puk Sun is the founder.

Note 3: All the interests stated above represent long positions.

(2) Share Options of the Company

Name of director	Date of grant	Exercise price	Exercisable period (Note)	Number of share options held as at 1st April 2007	as at 30th September 2007
Allan WONG Chi Yun	12th August 2005	HK$19.30	26th August 2008 to 25th August 2010	2,000,000	2,000,000
PANG King Fai	8th April 2005	HK$11.41	8th April 2008 to 7th April 2010	50,000	50,000

Note: As one of the conditions of grant, the grantee concerned agreed with the Company that the options granted shall not be exercisable within the period of 36 months from the date on which such options were accepted and shall not be exercisable after 60 months from the date on which such options were accepted.

Save as disclosed above, as at 30th September 2007, none of the directors and chief executive of the Company has any interest or short position in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register kept by the Company pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (the "Listing Rules") or which were required to be notified the issuer pursuant to Rule 3 of DTR of the FSA.

Substantial Shareholdings

As at 30th September 2007, according to the register maintained by the Company under Section 336 of the SFO and the record of notification made pursuant to Rule 5 of DTR of the FSA and in so far as is known to the Company, the parties, (other than the directors and chief executive of the Company), who held 3% or more equity interest in the issued share capital of the Company, together with the amount of each of such parties' interests were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Trustcorp Limited	Interest of controlled corporation (Notes 1 & 3)	74,101,153	30.7%
Newcorp Limited	Interest of controlled corporation (Notes 1 & 3)	74,101,153	30.7%
Newcorp Holdings Limited	Interest of controlled corporation (Notes 1 & 3)	74,101,153	30.7%
David Henry Christopher HILL	Interest of controlled corporation (Notes 1 & 3)	74,101,153	30.7%
David William ROBERTS	Interest of controlled corporation (Notes 1 & 3)	74,101,153	30.7%
Rebecca Ann HILL	Interest of spouse (Notes 1 & 3)	74,101,153	30.7%
Honorex Limited	Beneficial owner (Notes 1 & 3) Interest of controlled corporation (Notes 1 & 3)	1,416,325 65,496,225	27.8%
Conquer Rex Limited	Beneficial owner (Notes 1 & 3)	65,496,225	27.2%
Value Partners Limited	Investment manager (Notes 2 & 3)	14,174,000	5.9%
CHEAH Cheng Hye	Interest of controlled corporation (Notes 2 & 3)	14,174,000	5.9%
Templeton Asset Management Limited	Investment manager (Note 3)	14,064,000	5.8%
Twin Success Pacific Limited	Beneficial owner (Notes 1 & 3)	7,188,603	3.0%

Note 1: The shares were held as to 1,416,325 directly by Honorex Limited ("Honorex"), as to 65,496,225 directly by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 directly by Twin Success Pacific Limited ("Twin Success"). Conquer Rex was a wholly owned subsidiary of Honorex. Each of Conquer Rex, Honorex and Twin Success was a wholly owned subsidiary of Trustcorp Limited as the trustee of The Wong Chung Man 1984 Trust, a discretionary trust of which Mr. Allan WONG Chi Yun ("Mr. WONG"), a director of the Company, was the founder. Trustcorp Limited was therefore deemed to have an aggregate indirect interest in 74,101,153 shares. Honorex was also deemed to have an indirect interest in the 65,496,225 shares. Mr. WONG's founder interests in the 74,101,153 shares of the Company has also been disclosed under the section headed "Directors' Interests and Short positions in Shares, Underlying Shares and Debentures" above. Trustcorp Limited was wholly owned by Newcorp Limited which was in turn wholly owned by Newcorp Holdings Limited. Each of Mr. David Henry Christopher HILL and Mr. David William ROBERTS was deemed to be interested in such shares through its 35% interest in Newcorp Holdings Limited. Ms. Rebecca Ann HILL, being the spouse of Mr. David Henry Christopher HILL, was deemed to be interested in such shares by virtue of SFO.

Note 2: Mr. CHEAH Cheng Hye was deemed to be interested in such shares through its 32.77% interest in Value Partners Limited.

Note 3: All the interests stated above represent long positions.

Substantial Shareholdings (Continued)

Save as disclosed above, the Company has not been notified by any person (other than the directors or chief executive of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company as at 30th September 2007 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO or which were required to be notified pursuant to Rule 5 of DTR of the FSA.

Share Options Scheme

The Company operates share option scheme for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of these share option schemes include executive directors and employees of the Company and its subsidiaries. On 10th August 2001, the Company adopted a share option scheme (the "2001 Scheme") under which the directors may, at their discretion, at any time during the 10 years from the date of adoption of the 2001 Scheme, invite employees of the Company and any subsidiaries of the Group, including executive directors (but excluding non-executive directors) to take up shares of the Company in accordance with the terms of the 2001 Scheme.

Details of the 2001 Scheme are set out in note 10 to the consolidated financial statements.

Purchase, Sale or Redemption of Listed Shares

The Company has not redeemed any of its shares during the six months ended 30th September 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period under review.

Corporate Governance Practices

VTech Holdings Limited is incorporated in Bermuda. The Company has its primary share listing on the Hong Kong Stock Exchange and London Stock Exchange Plc. The primary 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 2007, 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. Mr. 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 non-executive directors form the majority of the Board of which four out of seven are independent. The Board believes the appointment of Mr. Allan 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 and a Nomination Committee with defined terms of reference which are of no less exacting terms than those set out in the Code. Corporate governance practices adopted by the Company during the six months ended 30th September 2007 are in line with those practices set out in the Company's 2007 Annual Report.

The Company is not subject to the Combined Code on Corporate Governance under the UK Listing Rules that applies to United Kingdom incorporated companies.

Directors' Securities Transactions

The Company has adopted the Model Codes as set out in Appendix 10 of the Listing Rules and Annex 1 to Rule 9 of the UK 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 standards of dealings set out therein.

Audit Committee

The Audit Committee is chaired by Mr. Raymond CH'IEN Kuo Fung with Mr. 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.

The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group and financial reporting matters including the review of the unaudited interim consolidated financial statements for the six months ended 30th September 2007.

Information for Shareholders

Listings

Shares of VTech Holdings Limited are listed on both The Stock Exchange of Hong Kong Limited and London Stock Exchange Plc. Ordinary shares are also available in the form of American Depository Receipts through the Bank of New York Mellon.

Stock Codes

The Stock Exchange of Hong Kong Limited	303
London Stock Exchange Plc	VTH
American Depository Receipts	VTKHY

Financial Calendar

Closure of Register of Members	10th – 14th December 2007 (both dates inclusive)
Payment of Interim Dividend	21st December 2007
FY2008 Annual Results Announcement	June 2008

Share Registrars

Principal

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Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda
Tel: (441) 299 3954
Fax: (441) 295 6759
Email: funds@bntb.bm

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
Hong Kong
Tel: (852) 2862 8628
Fax: (852) 2865 0990
Email: hkinfo@computershare.com.hk

UK Branch

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The Registry
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Kent BR3 4TU
United Kingdom
Tel: (44) 870 162 3100
Fax: (44) 208 639 2342
Email: ssd@capitaregistrars.com

American Depositary Receipts

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BNY Mellon Shareowner Services
P.O. Box 11258
Church Street Station
New York
NY 10286-1258
United States
Tel: 1 888 269 2377 (US domestic toll free)
(1) 212 815 3700 (International)
Email: shareowners@bankofny.com

Share Information

Board Lot:	1,000 shares
Issued shares as at 30th September 2007:	241,013,133 shares

Dividend

Dividend per share for the six months ended 30th September 2007:	US12.0 cents per ordinary share

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