INTERIM REPORT 2006/2007 中期報告書

for the six months ended 30th September 2006
截至二零零六年九月三十日止六個月

30 Years
Since 1976

VTech Holdings Ltd
HKSE: 303
LSE: VTH

Corporate Information

Board of Directors

Executive Directors

Allan WONG Chi Yun

Chairman and Group Chief Executive Officer

Albert LEE Wai Kuen

Deputy Chairman

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)*

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

American Depositary Receipts

The Bank of New York

101 Barclay Street

22nd Floor-West

New York

N.Y. 10286

U.S.A.

The Group posted a solid increase in both revenue and profit for the first half of the financial year 2007. The drivers were a strong increase in revenue at the contract manufacturing services (CMS) business, continued across-the-board growth at the electronic learning products (ELP) business, and a rebound in the US market for the telecommunication products (TEL) business, following the successful restructuring of the past two years.

Results

Group Performance Review

Group revenue for the six months ended 30th September 2006 increased by 27.1% over the same period of the financial year 2006 to US$713.8 million. Despite higher raw material prices and labour costs having a negative impact on the Group's gross margin, profit attributable to shareholders rose 42.1% from US$46.3 million to US$65.8 million. Earnings per share increased by 37.3% to US27.6 cents, compared to US20.1 cents in the corresponding period last year.

The Group's liquidity position was strong and it is substantially debt-free, with net cash as at 30th September 2006 amounting to US$126.6 million.

Dividends

In view of the continued growth in profitability and the Group's solid financial position, the Board of Directors (the "Board") has declared an increased interim dividend of US9.0 cents per ordinary share, together with a special dividend of US30.0 cents per ordinary share to commemorate VTech's 30th anniversary.

Rebound in the US for TEL

Revenue at the TEL business rose 21.0% over the same period last year to US$359.3 million. During the period, the business accounted for 50.3% of Group revenue.

Revenue in North America increased by 38.2% to US$289.9 million. The growth was mainly driven by strong sales of 5.8GHz cordless phones. The recovery in the US operations of the business that began in the financial year 2006 has thus continued on track in the first half of the financial year 2007.

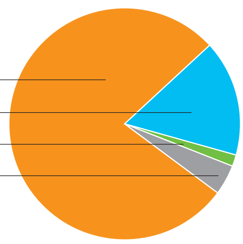
It follows a comprehensive restructuring programme launched two years ago, designed to improve the competitiveness of the US business through better product design and enhanced supply chain management.

The resulting range of new products, which began appearing on the shelves in the first quarter of the financial year 2007, has been well received by retailers and achieved good sell-through to end users. In consequence, shelf space has increased, sales volumes have risen and the Group has increased its share of the US cordless phone market, where VTech is now in the leadership position.

In Europe, however, the market has been weaker than expected and this has resulted in excess inventory in the market, a situation affecting all suppliers. As a result, although VTech was able to gain new customers and maintain its market share during the period, our TEL sales to the region declined 23.1% over the same period last year to US$60.5 million, following several years of robust growth. As part of our longer term expansion plans for the region, the business started to ship Voice over Internet Protocol (VoIP) phones to European customers in September 2006.

TEL Revenue by Region
for the six months ended 30th September 2006

	%	US$ million
North America	**80.7**	**289.9**
Europe	**16.8**	**60.5**
Asia Pacific	**0.5**	**1.6**
Others	**2.0**	**7.3**
Total	**100.0**	**359.3**



Broad Based Growth at ELP

The ELP business performed well in the past two years on the back of the outstanding performance of the V.Smile range and increasing efforts in marketing and promotion.

During the first half of the financial year 2007, the ELP business again achieved growth in revenue, which rose by 15.1% as compared with the first half of the financial year 2006 to US$223.2 million, equivalent to 31.3% of Group revenue.

Growth was driven by increasing sales of all product ranges and the successful launch of the V.Smile[TM] Baby Infant Development System (V.Smile Baby). The basic V.Smile console is now in its third year and sales were in line with management expectations. Sales of software continued to rise and by the end of the calendar year 2006, 10 new titles will have been added to the library, with additional Spanish language versions. The ratio of cartridges to consoles also increased as compared to the same period last year.

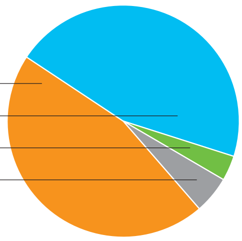
The range has been extended through the introduction of not only V.Smile Baby, aimed at children from nine months to three years old, but also V.Flash, which targets pre-teenagers. Sales of V.Smile Baby have been particularly encouraging, confirming our thesis that V.Smile is a product platform that can be developed long into the future. In September, V.Smile Baby was named to the Toys "R" Us 2006 "Hot Toy" list, while in October, V.Flash was named one of the Top 12 Toys of Christmas and Holiday 2006 by Wal-Mart.

In addition to V.Smile, the traditional ELPs also sold well. A number of new products were launched, including Nitro Vision and SmartVille, a new line of interactive animal character play sets for toddlers. Pink Nitro Notebook was included in the Toys "R" Us "Fabulous 15 The Best of the Holiday Season" list.

Geographically, revenue from North America rose by 9.9% to US$101.9 million as the business continued to gain shelf space in the region. In Europe, revenue grew by 14.8% over the same period last year to US$101.7 million and VTech maintained its dominant position in the region. Revenue from Asia Pacific and other regions such as Mexico also recorded a continued growth.

ELP Revenue by Region
for the six months ended 30th September 2006

	%	US$ million
North America	**45.7**	**101.9**
Europe	**45.6**	**101.7**
Asia Pacific	**3.5**	**7.9**
Others	**5.2**	**11.7**
Total	**100.0**	**223.2**



Rapid Expansion of CMS

The CMS business achieved an 85.7% increase in revenue as compared with the first six months of the financial year 2006, to US$131.3 million. As a result, the business accounted for 18.4% of Group revenue and its performance once again far exceeded that of the global Electronic Manufacturing Services industry, which grew by some 14%* during the first half of the calendar year 2006.

The growth in revenue came across the board, but was primarily supported by strong demand from existing customers in the areas of switching mode power supplies and professional audio equipment, as they attracted significantly more business.

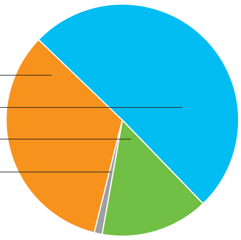
VTech competed strongly on both price and service. Despite the surge in production volumes and effective cost controls, service levels remained high. In the first half of the financial year 2007, the business was given a "Partner of the Year 2006" award by a professional audio equipment customer, in recognition of VTech's outstanding service and level of support given to the company's business development.

** Source: Manufacturing Market Insider – Oct 2006 issue*

Europe remained the leading source of revenue for the CMS business, representing 51.1% of the total CMS revenue, followed by North America at 33.8% and Asia Pacific at 15.0%.

CMS Revenue by Region
for the six months ended 30th September 2006

	%	US$ million
North America	33.8	44.4
Europe	51.1	67.1
Asia Pacific	15.0	19.7
Others	0.1	0.1
Total	100.0	131.3



Outlook

Growth in our businesses appears set to continue in the second half of the financial year 2007. This is, however, dependent on the economic situation in the United States.

We also remain mindful of factors that could affect profitability. The Renminbi looks set to rise further, as do wage levels in southern China, our manufacturing base. High raw materials and components prices remain a factor, although they are now stabilising. Hence, throughout its businesses, in addition to seeking higher revenue, the Group will work further to mitigate the cost pressure through improving manufacturing efficiency, better cost control and economies of scale during the second half of the financial year 2007.

The improvement in the TEL business in the United States will continue. We are gaining more shelf space and the sell through data thus far suggests continued growth compared to the same period last year. The new range of products for the calendar year 2007, which includes a number of "next generation" cordless phones, has already been unveiled to retail customers and was favourably received. In Europe, by contrast, the market is likely to remain soft and we do not expect sales growth in the second half of the financial year 2007.

The ELP business is expected to perform well in the second half of the financial year. V.Flash came onto the shelves in September and is expected to contribute to incremental sales growth. New print and TV based advertising campaigns have been started in the second half and will support the sales push for all our products during the holiday season. We plan to introduce a second generation V.Smile console to the market in the second half of calendar year 2007.

The factors that boosted revenue at the CMS business during the first half of the financial year 2007 remain in place and hence continued growth is expected in the second half. At the same time, the business is revitalising its sales office in Japan, a market of much untapped potential for the business.

To cope with the growth in demand for the CMS business, the Group will add a new factory building at its existing plant in Liaobu, Dongguan, increasing the size of the CMS manufacturing facilities by 50%. The new facility is scheduled to open in April 2007.

In summary, we are cautiously optimistic that the growth in our businesses will continue, and that each of our businesses is well placed to take advantage of market opportunities.

Allan WONG Chi Yun
Chairman

Hong Kong, 22nd November 2006

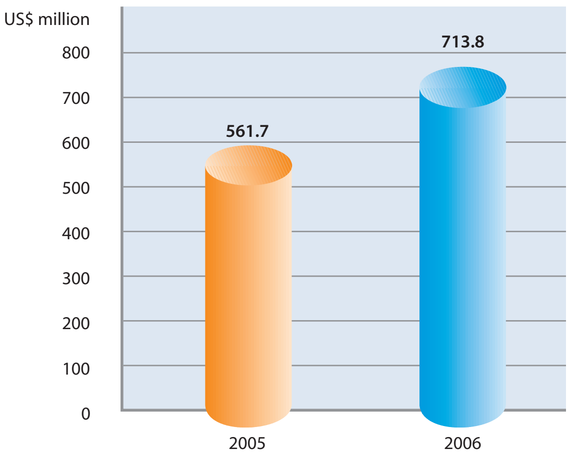
Group Results

Group revenue for the six-month period ended 30th September 2006 reached US$713.8 million, an increase of US$152.1 million or 27.1% over the corresponding period of the previous financial year. This was mainly due to solid growth in sales at the three core businesses, particularly strong increase in revenue at CMS, continued solid performance by ELP, and a rebound in revenue at TEL as compared with the same period of the financial year 2006.

The TEL business recorded an increase in revenue of US$62.3 million or 21.0% compared with the same period of the last financial year. The growth in revenue was mainly attributable to the higher sales of 5.8GHz cordless phones in North America, where revenue rose by 38.2%. This was the result of a successful restructuring programme launched in two years ago. However, sales to European markets declined by 23.1% over the same period of the last financial year as overall market conditions were weaker than expected. The ELP business continued to record growth in revenue, which increased by 15.1% compared with the same period of the previous financial year. The momentum of the V.Smile product range remained strong while revenue contribution from traditional ELPs also picked up as compared with the first half of the last financial year. The CMS business recorded a significant growth in revenue with an 85.7% increase over the last corresponding period owing to strong demand from several top tier customers for certain categories of products, in particular switching mode power supply, professional audio equipment and communication products.

Group Revenue

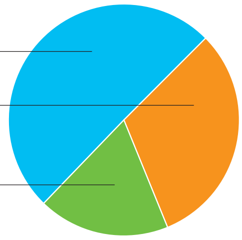
for the six months ended 30th September



Group Revenue by Product Line

for the six months ended 30th September 2006

	%	US$ million
Telecommunication Products	50.3	359.3
Electronic Learning Products	31.3	223.2
Contract Manufacturing Services	18.4	131.3
Total	100.0	713.8



The distribution of the Group's revenue from the three core businesses was: 50.3% (2005: 52.9%) from the TEL business, 31.3% (2005: 34.5%) from the ELP business and 18.4% (2005: 12.6%) from the CMS business. As a result of the exceedingly good performance of the CMS business, its revenue contribution to the Group increased significantly despite the fact that both TEL and ELP businesses also achieved remarkable growth in revenue.

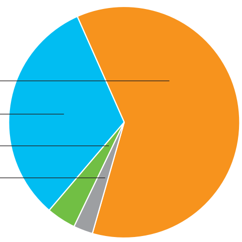
For the Group as a whole, the North American market accounted for 61.1% (2005: 57.3%) of the Group's revenue while Europe and Asia Pacific accounted for 32.1% (2005: 35.1%) and 4.1% (2005: 5.6%) respectively. This change in the contribution of revenue from the three regions mainly reflects the geographic distribution of revenue from the TEL business, where sales in the United States rebounded strongly while that of the European markets decreased as compared with the last corresponding period.

Profit attributable to shareholders for the six-month period ended 30th September 2006 increased by 42.1% to US$65.8 million, as compared to US$46.3 million recorded in the same period last year. The growth in Group profit was attributable to the increase in profitability at the three core businesses.

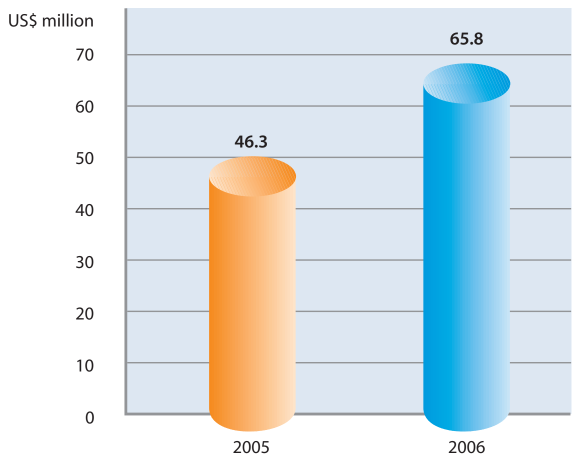
Group Revenue by Region

for the six months ended 30th September 2006

	%	US$ million
North America	61.1	436.2
Europe	32.1	229.3
Asia Pacific	4.1	29.2
Others	2.7	19.1
Total	100.0	713.8



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



The gross profit of the Group rose to US$228.0 million from US$187.7 million in the corresponding period of the last financial year. Gross margin for the period, however, decreased from 33.4% to 31.9%. The decrease in gross margin was partly due to a change in sales mix. The rise in material prices, labour costs and the appreciation of the Renminbi also had a negative impact on the gross margin. The Group counteracted the cost pressure through enhancing productivity, better cost control and transferring plastics production to new plant at Qingyuan, which is a lower cost location.

In line with increased sales, selling and distribution costs rose by 21.9% partly because of higher advertising and promotional spending at the ELP business. However, selling and distribution costs as a percentage of Group revenue actually decreased from 15.7% in the first six months of the last financial year to 15.1% in the same period of the current financial year, owing to management's success in controlling overheads. Administrative and other operating expenses were US$27.3 million, a decrease of US$3.5 million over the same period of last year. The decrease was mainly due to an exchange gain of US$0.4 million recorded in the current financial period whereas an exchange loss of US$4.6 million was recorded in the same period of the previous financial year.

For the six-month period ended 30th September 2006, the Group spent US$22.5 million on research and development, which represents 3.2% of Group revenue.

Liquidity and Financial Resources

The Group's financial resources continued to be strong. As at 30th September 2006, the Group had cash on hand of US$126.6 million. The Group 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 five 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 exposures to fluctuations in foreign currency exchange rates arising from the Group's global operations. It is the Group's policy not to engage in speculative activities. Forward foreign exchange contracts are used to hedge against major exposures.

Working Capital

The levels of stock and trade debtors as at 30th September 2006 were US$238.7 million and US$283.4 million respectively, as compared to US$133.8 million and US$162.9 million as at 31st March 2006. The increase in stock level was primarily to cater for the increased demand for the products of the three core businesses in the second half of the financial year. The increase in trade debtors was mainly due to increase in sales at all three core businesses in the first six months period. The turnover days for stock and trade debtors were 119 days and 56 days respectively, compared to 106 days and 57 days in the corresponding period of the last financial year.

Contingent Liabilities and Litigation

Various Group companies are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the Directors are of the opinion that there will be no material adverse effect on the financial position of the Group.

During the period, VTech has reached full and final settlement with PricewaterhouseCoopers relating to the acquisition by the Group of certain assets and liabilities of Lucent's Wired Consumer Products Business in 2000. The net receipt has been credited to the consolidated income statement during the six months ended 30th September 2006.

Consolidated Financial Statements

Consolidated Income Statement

	Note	(Unaudited) Six months ended 30th September 2006 US$ million	2005 US$ million	(Audited) Year ended 31st March 2006 US$ million
Revenue	2	**713.8**	561.7	1,204.6
Cost of sales		**(485.8)**	(374.0)	(757.9)
Gross profit		**228.0**	187.7	446.7
Selling and distribution costs		**(107.8)**	(88.4)	(209.2)
Administrative and other operating expenses		**(27.3)**	(30.8)	(61.0)
Research and development expenses		**(22.5)**	(18.3)	(40.3)
Operating profit	2 & 3	**70.4**	50.2	136.2
Interest income		**4.1**	1.8	3.9
Share of results of associates		**–**	–	–
Profit before taxation		**74.5**	52.0	140.1
Taxation	4	**(8.7)**	(5.7)	(11.3)
Profit attributable to shareholders		**65.8**	46.3	128.8
Interim dividend	5	**21.5**	14.3	14.3
Special dividend	5	**71.7**	–	–
Final dividend	5			62.1
Earnings per share (US cents)	6			
— Basic		**27.6**	20.1	54.9
— Diluted		**27.1**	19.9	54.3

Consolidated Statement of Changes in Shareholders' Funds

	Note	(Unaudited) Six months ended 30th September 2006 US$ million	2005 US$ million	(Audited) Year ended 31st March 2006 US$ million
Shareholders' funds at beginning of period		**306.2**	203.3	203.3
Exercise of share options		**0.3**	11.2	13.2
Exercise of warrants		**–**	3.3	3.3
Realisation of hedging reserve		**1.1**	–	(2.7)
Fair value (losses)/gains on hedging during the period		**(0.9)**	1.4	3.3
Capital reserve on employee share option scheme		**0.6**	1.0	1.6
Exchange translation differences		**3.5**	(2.5)	(2.3)
Net gains and (losses) not recognised in the income statement		**4.6**	14.4	16.4
Profit attributable to shareholders		**65.8**	46.3	128.8
Dividends approved and paid during the period	5	**(62.1)**	(28.0)	(42.3)
Shareholders' funds at end of period		**314.5**	236.0	306.2

Consolidated Balance Sheet

	Note	(Unaudited) 30th September 2006 US$ million	2005 US$ million	(Audited) 31st March 2006 US$ million
Non-current assets				
Tangible assets	7	**74.5**	50.9	64.6
Leasehold land payments		**3.7**	3.4	3.7
Deferred tax assets		**8.6**	5.7	5.1
Investments		**0.2**	0.3	0.2
		87.0	60.3	73.6
Current assets				
Stocks		**238.7**	184.4	133.8
Debtors and prepayments	8	**307.2**	268.7	183.6
Taxation recoverable		**0.8**	1.2	1.8
Cash and cash equivalents		**126.6**	101.7	242.4
		673.3	556.0	561.6
Current liabilities				
Creditors and accruals	9	**(365.5)**	(318.0)	(267.7)
Provisions		**(58.4)**	(47.9)	(49.3)
Taxation payable		**(17.3)**	(12.6)	(7.9)
		(441.2)	(378.5)	(324.9)
Net current assets		**232.1**	177.5	236.7
Total assets less current liabilities		**319.1**	237.8	310.3
Non-current liabilities				
Borrowings		**–**	(0.1)	–
Deferred tax liabilities		**(4.6)**	(1.7)	(4.1)
		(4.6)	(1.8)	(4.1)
Net assets		**314.5**	236.0	306.2
Capital and reserves				
Share capital	10	**11.9**	11.9	11.9
Reserves	11	**302.6**	224.1	294.3
Shareholders' funds		**314.5**	236.0	306.2

Condensed Consolidated Cash Flow Statement

	(Unaudited) Six months ended 30th September 2006 US$ million	2005 US$ million	(Audited) Year ended 31st March 2006 US$ million
Net cash (used in)/generated from operating activities	**(37.2)**	0.8	176.2
Net cash used in investing activities	**(20.5)**	(9.7)	(31.9)
Net cash used in financing activities	**(61.8)**	(13.5)	(26.0)
Effect of exchange rate changes	**3.7**	0.2	0.2
(Decrease)/increase in cash and cash equivalents	**(115.8)**	(22.2)	118.5
Cash and cash equivalents at beginning of period	**242.4**	123.9	123.9
Cash and cash equivalents at end of period	**126.6**	101.7	242.4

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

1 Basis of Preparation

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 2006 included in the interim consolidated financial statements does not constitute the Company's annual financial statements prepared under International Financial Reporting Standards ("IFRS") for that financial year but is derived from those financial statements. The annual financial statements for the year ended 31st March 2006 are available at the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21st June 2006.

The same accounting policies adopted in the 2006 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 judgments, 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 judgments 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.

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 telecommunication and electronic products business is the principal business segment of the Group.

Primary reporting format – business segments

	(Unaudited) Six months ended 30th September			
	Revenue 2006 US$ million	Revenue 2005 US$ million	**Operating profit/(loss) 2006 US$ million**	Operating profit/(loss) 2005 US$ million
Telecommunication and electronic products	**713.8**	561.3	**70.5**	50.6
Other activities	**–**	0.4	**(0.1)**	(0.4)
	713.8	561.7	**70.4**	50.2

Secondary reporting format – geographical segments

	(Unaudited) Six months ended 30th September			
	Revenue 2006 US$ million	Revenue 2005 US$ million	**Operating profit 2006 US$ million**	Operating profit 2005 US$ million
North America	**436.2**	321.7	**40.3**	21.4
Europe	**229.3**	197.2	**18.1**	22.8
Asia Pacific	**29.2**	31.2	**7.2**	3.3
Others	**19.1**	11.6	**4.8**	2.7
	713.8	561.7	**70.4**	50.2

3 Operating Profit

The operating profit is arrived at after charging the following:

		(Unaudited) Six months ended 30th September	
	Note	**2006 US$ million**	2005 US$ million
Depreciation charges	7	**11.2**	8.8
Loss on disposal of tangible assets		**–**	0.5

4 Taxation

	(Unaudited) Six months ended 30th September 2006 US$ million	2005 US$ million
Company and subsidiaries		
Income tax		
Hong Kong	**11.6**	7.5
U.S.A.	**0.1**	0.2
Other countries	**–**	0.1
Deferred tax		
Origination and reversal of temporary differences	**(3.0)**	(2.1)
	8.7	5.7
Current tax	**11.7**	7.8
Deferred tax	**(3.0)**	(2.1)
	8.7	5.7

Tax on profits has been calculated at the rates of taxation prevailing in the countries in which the Group operates.

5 Dividends

(a) Dividends attributable to the period:

	(Unaudited) Six months ended 30th September 2006 US$ million	2005 US$ million
Interim dividend of US9.0 cents (2005: US6.0 cents) per share declared	**21.5**	14.3
Special dividend of US30.0 cents (2005: Nil) per share declared	**71.7**	–
	93.2	14.3

The interim dividend and special dividend declared after the balance sheet date have not been recognised as liabilities at the balance sheet date.

(b) Final dividend of US26.0 cents (2005: US12.0 cents) per share for the year ended 31st March 2006, which totaled US$62.1 million (2005: US$28.0 million) was approved and paid during the period.

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$65.8 million (2005: US$46.3 million).

The basic earnings per share is based on the weighted average of 238.9 million (2005: 230.6 million) ordinary shares in issue during the period. The diluted earnings per share is based on 243.3 million (2005: 232.5 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 2006 US$ million
At beginning of period	**64.6**
Additions	**20.7**
Disposals	**(0.2)**
Depreciation	**(11.2)**
Effect of changes in exchange rate	**0.6**
At end of period	**74.5**

8 Debtors and Prepayments

Total debtors and prepayments of US$307.2 million (31st March 2006: US$183.6 million) includes trade debtors of US$283.4 million (31st March 2006: US$162.9 million).

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

	(Unaudited) 30th September 2006 US$ million	(Audited) 31st March 2006 US$ million
0-30 days	**157.8**	90.7
31-60 days	**86.2**	41.4
61-90 days	**33.7**	17.0
>90 days	**5.7**	13.8
Total	**283.4**	162.9

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

Total creditors and accruals of US$365.5 million (31st March 2006: US$267.7 million) includes trade creditors of US$186.0 million (31st March 2006: US$116.8 million).

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

	(Unaudited) 30th September 2006 US$ million	(Audited) 31st March 2006 US$ million
0-30 days	**71.1**	52.4
31-60 days	**67.5**	33.2
61-90 days	**31.8**	18.5
>90 days	**15.6**	12.7
Total	**186.0**	116.8

10 Share Capital, Share Options and Warrants

Share Capital

	(Unaudited) 30th September 2006 US$ million	(Audited) 31st March 2006 US$ million
Authorised		
Ordinary shares:		
400,000,000 (31st March 2006: 400,000,000) of US$0.05 each	**20.0**	20.0

	(Unaudited) 30th September 2006 No. of shares	(Unaudited) 30th September 2006 US$ million	(Audited) 31st March 2006 No. of shares	(Audited) 31st March 2006 US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
Balance at beginning of period / year	**238,773,133**	**11.9**	225,627,133	11.3
Issued shares upon exercise of share options	**212,000**	**–**	10,146,000	0.5
Issued shares upon exercise of warrants	**–**	**–**	3,000,000	0.1
Balance at end of period / year	**238,985,133**	**11.9**	238,773,133	11.9

Note: Subsequent to the balance sheet date and up to 22nd November 2006, the issued and fully paid share capital of the Company was increased to 238,995,133 ordinary shares upon the exercise of 10,000 share options at the exercise price of HK$10.20 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 2006, the number of shares issuable under the options granted pursuant to the 2001 Scheme was 7,002,000, which represented approximately 2.9% of the then 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 2006	Number of share options granted during the period	Number of share options exercised during the period	Number of share options lapsed during the period (Note 5)	Balance in issue at 30th September 2006
26th February 2002 to 26th March 2002	HK$10.2	26th February 2005 to 25th March 2007	254,000	–	(147,000) (Note 3)	–	**107,000**
10th July 2002 to 8th August 2002	HK$8.71	10th July 2005 to 7th August 2007	85,000	–	(65,000) (Note 4)	–	**20,000**
20th April 2004 to 19th May 2004	HK$15.0	20th April 2007 to 19th May 2009	1,965,000	–	–	–	**1,965,000**
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**
			7,214,000	–	(212,000)	–	**7,002,000**

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.

10 Share Capital, Share Options and Warrants (Continued)

Share Options (Continued)

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 147,000 share options were exercised at the exercise price of HK$10.20 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$39.06 per share and HK$38.49 per share respectively.

Note 4: An aggregate of 65,000 share options were exercised at the exercise price of HK$8.71 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$36.20 per share and HK$36.46 per share respectively.

Note 5: No options were cancelled during the period.

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.

Warrants

An aggregate of 3,000,000 warrants have been exercised during the financial year ended 31st March 2006 and no warrants were outstanding as at 31st March 2006 and 30th September 2006.

11 Reserves

	(Unaudited) 30th September 2006 US$ million	(Audited) 31st March 2006 US$ million
Share premium	**90.6**	90.3
Other properties revaluation reserve	**6.1**	6.1
Revenue reserve	**206.6**	202.9
Exchange reserve	**(3.7)**	(7.2)
Capital reserve	**2.2**	1.6
Hedging reserve	**0.8**	0.6
	302.6	294.3

12 Capital Commitments

	(Unaudited) 30th September 2006 US$ million	(Audited) 31st March 2006 US$ million
Capital commitments for property, plant and equipment:		
Authorised but not contracted for	**22.7**	48.8
Contracted but not provided for	**14.2**	5.9
	36.9	54.7

13 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet effective for the Annual Accounting period ending 31st March 2007

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 ended 31st March 2007 and which have not been adopted in these interim financial statements:

	Effective for accounting period beginning on or after
IFRS 7, Financial instruments: disclosures	1st January 2007
IFRIC 8, Scope of IFRS2	1st May 2006
IFRIC 9, Reassessment of Embedded Derivatives	1st June 2006
IFRIC 10, Interim Financial Reporting and Impairment	1st November 2006
Amendment to IAS 1, Presentation of financial statements: capital disclosure	1st January 2007

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.

14 Approval of Interim Report

The interim report was approved by the Board on 22nd November 2006.

Interim Dividend and Special Dividend

The Board has declared an interim dividend in respect of the six months ended 30th September 2006 of US9.0 cents per ordinary share and a special dividend of US30.0 cents per ordinary share to shareholders whose names appear on the register of members of the Company as at the close of business on 22nd December 2006.

The interim dividend and special dividend will be payable on 3rd January 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 19th December 2006.

Closure of Register of Members

The register of members of the Company will be closed from 18th December 2006 to 22nd December 2006, both dates inclusive, during which period no transfer of shares will be effected.

In order to qualify for the interim dividend and special 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, 15th December 2006.

The principal registrar is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda, the branch registrar in the United Kingdom is Capita IRG Plc, Bourne House, 34 Beckenham Road, Kent BR3 4TU, DX91750, Beckenham West, 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, Share Options and Warrants

Details of the movements in share capital, share options and warrants 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 2006, the interests and short positions of the directors and the 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 to the UK Listing Authority pursuant to Paragraphs 16.13 to 16.17 of the Listing Rules of the Financial Services Authority in the United Kingdom (the "UK Listing Rules") 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	40.1%
Albert LEE Wai Kuen	2,549,332	–	–	1,500,000	4,049,332	1.7%
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 was a discretionary trust of which Mr. Michael TIEN Puk Sun was 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 2006	Number of share options held as at 30th September 2006
Allan WONG Chi Yun	12th August 2005	HK$19.3	26th August 2008 to 25th August 2010	2,000,000	2,000,000
Albert LEE Wai Kuen	19th November 2004	HK$11.03	22nd November 2007 to 21st November 2009	1,500,000	1,500,000

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 2006, none of the directors and the 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 Listing Rules or which were required to be notified to the UK Listing Authority pursuant to Paragraphs 16.13 to 16.17 of the UK Listing Rules.

Substantial Shareholdings

As at 30th September 2006, according to the register maintained by the Company under Section 336 of the SFO and the record of notification made to the UK Listing Authority pursuant to Paragraphs 9.11 to 9.14 of the UK Listing Rules and in so far as is known to the Company, the parties, (other than the directors and the 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	31.0%
Newcorp Limited	Interest of Controlled Corporation (Notes 1 & 3)	74,101,153	31.0%
Newcorp Holdings Limited	Interest of Controlled Corporation (Notes 1 & 3)	74,101,153	31.0%
David Henry Christopher HILL	Interest of Controlled Corporation (Notes 1 & 3)	74,101,153	31.0%
David William ROBERTS	Interest of Controlled Corporation (Notes 1 & 3)	74,101,153	31.0%
Rebecca Ann HILL	Interest of Spouse (Notes 1 & 3)	74,101,153	31.0%
Honorex Limited	Beneficial owner (Notes 1 & 3)	1,416,325	28.0%
	Interest of Controlled Corporation (Notes 1 & 3)	65,496,225	
Conquer Rex Limited	Beneficial owner (Notes 1 & 3)	65,496,225	27.4%
Value Partners Limited	Investment Manager (Notes 2 & 3)	19,925,000	8.3%
CHEAH Cheng Hye	Interest of Controlled Corporation (Notes 2 & 3)	19,925,000	8.3%
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.

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 2006 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 Company under Section 336 of the SFO or which were required to be notified to the UK Listing Authority pursuant to Paragraphs 9.11 to 9.14 of the UK Listing Rules.

Share Option Scheme

The Company operates share option scheme (the "2001 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 the 2001 Scheme include executive directors (but excluding non-executive directors) and employees of the Company and/or any of its subsidiaries. Details of the 2001 Scheme are set out in note 10 to the consolidated financial statements.

Continuing Connected Transaction

As announced on 6th April 2005, the Company has entered into a transaction which constituted a continuing connected transaction of the Company under Rule 14A.34 of the Listing Rules and Chapter 11 of the UK Listing Rules as set out below:

On 6th April 2005, the Company as tenant renewed a lease (the "Lease") with Aldenham Company Limited ("Aldenham") as landlord for the lease of the premises situated at Bowen Road, Hong Kong for 2 years commencing 1st April 2005 and expiring on 31st March 2007 at a monthly rental of HK$250,000 for the purpose of providing housing to Mr. Allan WONG Chi Yun ("Mr. WONG"), a director, chief executive and a substantial shareholder of the Company. Aldenham is a wholly indirect subsidiary of a trust in which the family members of Mr. WONG are beneficiaries. Aldenham is therefore a connected person of the Company as ascribed by the Listing Rules and the Lease constituted a continuing connected transaction under the Listing Rules.

Purchase, Sale or Redemption of Listed Shares

The Company has not redeemed any of its shares during the six months ended 30th September 2006. 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

VTech Holdings Limited is incorporated in Bermuda. The Company has its primary share listing on The Stock Exchange of Hong Kong Limited 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 2006, the Company has complied with all the code provisions of the Code and to a large extent, the recommended best practices in the Code except for the deviations from code 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 six 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 Company is not subject to the Combined Code on Corporate Governance under the UK Listing Rules that applies to United Kingdom incorporated companies.

Model Codes for Securities Transactions

The Company has adopted the Model Codes as set out in Appendix 10 of the Listing Rules and Appendix to Chapter 16 of the UK Listing Rules regarding securities transactions by directors and senior management in relation to the accounting period covered by the Interim Report. All directors confirmed, following specific enquiry by the Company, that they have fully complied with the required standard 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 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 2006.

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.

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	18th – 22nd December 2006 (both dates inclusive)
Payment of Interim Dividend and Special Dividend	3rd January 2007
FY2007 Annual Results Announcement	June 2007

Share Registrars

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Fax: (44) 20 8639 2342
Email: ssd@capitaregistrars.com

Share Information

Board Lot:	1,000 shares
Issued shares as at 30th September 2006:	238,985,133 shares

Dividends

Dividends per share for the six months ended 30th September 2006

– Interim Dividend	US9.0 cents per ordinary share
– Special Dividend	US30.0 cents per ordinary share

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