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VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

PERFORMANCE HIGHLIGHTS

- Group revenue increased 4.5% to US\$1,164.8 million
- Gross profit margin rose from 27.4% to 28.3%
- Profit attributable to shareholders of the Company increased 6.6% to US\$82.0 million
- Interim dividend of US\$17.0 cents per ordinary share, unchanged
- Complex and volatile operating environment leading to revised full year outlook
- Financial position remains strong

UNAUDITED INTERIM RESULTS

The directors (the “Directors”) of VTech Holdings Limited (“VTech” or the “Company”) announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2022 together with the comparative figures for the same period last year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2022

	Note	Six months ended 30 September 2022 (Unaudited) US\$ million	2021 (Unaudited) US\$ million	Year ended 31 March 2022 (Audited) US\$ million
Revenue	3	1,164.8	1,114.8	2,370.5
Cost of sales		(835.4)	(809.9)	(1,701.4)
Gross profit		329.4	304.9	669.1
Other net income / (expenses)	4	1.2	0.4	(0.5)
Selling and distribution costs		(150.7)	(134.7)	(304.9)
Administrative and other operating expenses		(38.6)	(37.2)	(75.6)
Research and development expenses		(42.3)	(42.6)	(84.3)
Operating profit	3(b)	99.0	90.8	203.8
Net finance expense	4	(5.7)	(4.8)	(9.6)
Share of results of an associate		-	0.3	0.4
Profit before taxation	4	93.3	86.3	194.6
Taxation	5	(11.3)	(9.4)	(21.9)
Profit for the period/year and attributable to shareholders of the Company		82.0	76.9	172.7
Earnings per share (US cents)	7			
- Basic		32.5	30.5	68.5
- Diluted		32.5	30.5	68.5

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2022

	Six months ended 30 September		Year ended 31 March
	2022 (Unaudited) US\$ million	2021 (Unaudited) US\$ million	2022 (Audited) US\$ million
Profit for the period / year	82.0	76.9	172.7
Other comprehensive income for the period / year			
Item that will not be reclassified to profit or loss:			
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax	-	-	0.5
	-	-	0.5
Items that may be reclassified subsequently to profit or loss:			
Fair value (losses) / gains on hedging, net of deferred tax	(6.7)	6.9	3.0
Realisation on hedging reserve, net of deferred tax	(0.8)	1.6	2.7
Exchange translation differences	(41.5)	(3.4)	(4.2)
	(49.0)	5.1	1.5
Other comprehensive income for the period / year	(49.0)	5.1	2.0
Total comprehensive income for the period / year	33.0	82.0	174.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		30 September		31 March
		2022	2021	2022
	Note	(Unaudited)	(Unaudited)	(Audited)
		US\$ million	US\$ million	US\$ million
Non-current assets				
Tangible assets	8	77.7	89.7	87.3
Right-of-use assets		164.1	199.3	180.8
Intangible assets		15.7	16.4	16.0
Goodwill		36.1	36.1	36.1
Interest in an associate		3.8	3.7	3.8
Investments		1.4	3.4	2.2
Net assets on defined benefit scheme		7.4	6.9	7.4
Deferred tax assets		13.0	12.1	10.9
		319.2	367.6	344.5
Current assets				
Stocks		570.0	599.4	553.3
Debtors, deposits and prepayments	9	549.0	575.4	384.9
Taxation recoverable		5.8	3.9	8.2
Deposits and cash		103.3	52.2	195.8
		1,228.1	1,230.9	1,142.2
Current liabilities				
Creditors and accruals	10	(644.5)	(678.2)	(567.2)
Provisions for defective goods returns and other liabilities		(28.3)	(27.9)	(28.3)
Bank loans		(93.2)	(26.4)	-
Lease liabilities		(15.2)	(22.5)	(20.6)
Taxation payable		(13.4)	(21.1)	(11.9)
		(794.6)	(776.1)	(628.0)
Net current assets		433.5	454.8	514.2
Total assets less current liabilities		752.7	822.4	858.7
Non-current liabilities				
Deferred tax liabilities		(3.4)	(2.9)	(3.4)
Lease liabilities		(164.1)	(191.1)	(176.5)
		(167.5)	(194.0)	(179.9)
Net assets		585.2	628.4	678.8
Capital and reserves				
Share capital		12.6	12.6	12.6
Reserves		572.6	615.8	666.2
Total equity		585.2	628.4	678.8

NOTES

1. Basis of Preparation

The interim results set out in this announcement do not constitute the Group's Interim Financial Report for the six months ended 30 September 2022 but are extracted from that Interim Financial Report.

The unaudited Interim Financial Report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB"). It was authorised for issue on 10 November 2022.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2022 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual consolidated financial statements. Details of any changes in accounting policies are set out in note 2.

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

The Interim Financial Report has not been audited or reviewed by the auditors pursuant to International Standards on Auditing or International Standards on Review Engagements.

The financial information relating to the financial year ended 31 March 2022 that is included in the Interim Financial Report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The annual consolidated financial statements for the year ended 31 March 2022 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 16 May 2022.

2. Changes in Accounting Policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IFRS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this Interim Financial Report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Revenue and Segment Information

(a) Revenue

The principal activity of the Group is design, manufacture and distribution of consumer electronic products. All revenue of the Group are from contracts with customers within the scope of IFRS 15 and recognised at a point in time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products and regions is as follows:

Six months ended 30 September 2022

	North America (Unaudited) US\$ million	Europe (Unaudited) US\$ million	Asia Pacific (Unaudited) US\$ million	Other Regions (Unaudited) US\$ million	Total (Unaudited) US\$ million
Electronic Learning Products	266.5	159.3	41.9	6.4	474.1
Telecommunication Products	123.9	46.3	13.9	5.3	189.4
Contract Manufacturing Services	140.1	264.8	96.4	-	501.3
Total	530.5	470.4	152.2	11.7	1,164.8

Six months ended 30 September 2021

	North America (Unaudited) US\$ million	Europe (Unaudited) US\$ million	Asia Pacific (Unaudited) US\$ million	Other Regions (Unaudited) US\$ million	Total (Unaudited) US\$ million
Electronic Learning Products	255.0	151.1	39.2	5.8	451.1
Telecommunication Products	131.3	47.7	13.3	6.2	198.5
Contract Manufacturing Services	111.6	287.0	66.5	0.1	465.2
Total	497.9	485.8	119.0	12.1	1,114.8

(b) Segment Information

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

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

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

Each of the above reportable segments primarily derives its revenue from the sale of electronic learning products, telecommunication products and products from contract manufacturing services to customers in the relevant geographical region.

All of these products are manufactured in the Group's manufacturing facilities located in the People's Republic of China and Malaysia under the Asia Pacific segment and Mexico under North America segment.

3. Revenue and Segment Information *(continued)*

(b) Segment Information *(continued)*

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

(i) Segment revenues and results

Revenue is allocated to the reportable segments based on the location of external customers. Expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those geographical locations or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is operating profit.

In addition to receiving segment information concerning operating profit, management is provided with segment information concerning revenue and depreciation and amortisation.

(ii) Segment assets and liabilities

Segment assets include all non-current assets and current assets with the exception of deferred tax assets, taxation recoverable and other corporate assets including intangible assets, goodwill, investments and interest in an associate.

Segment liabilities include creditors and accruals, provisions for defective goods returns and other liabilities, bank loans and lease liabilities with the exception of taxation payable and deferred tax liabilities.

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

	Reportable segment revenue		Reportable segment profit	
	Six months ended		Six months ended	
	30 September		30 September	
	2022	2021	2022	2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	US\$ million	US\$ million	US\$ million	US\$ million
North America	530.5	497.9	47.7	50.8
Europe	470.4	485.8	31.3	23.1
Asia Pacific	152.2	119.0	17.5	14.7
Other Regions	11.7	12.1	2.5	2.2
	1,164.8	1,114.8	99.0	90.8

	Reportable segment assets		Reportable segment liabilities	
	30 September		30 September	
	2022	31 March	2022	31 March
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	US\$ million	US\$ million	US\$ million	US\$ million
North America	279.2	212.3	(119.9)	(93.6)
Europe	230.0	138.2	(56.0)	(38.1)
Asia Pacific	962.3	1,059.0	(769.4)	(660.9)
Other Regions	-	-	-	-
	1,471.5	1,409.5	(945.3)	(792.6)

3. Revenue and Segment Information *(continued)*

(b) Segment Information *(continued)*

(iii) Reconciliations of reportable segment assets and liabilities

	30 September 2022 (Unaudited) US\$ million	31 March 2022 (Audited) US\$ million
Assets		
Reportable segment assets	1,471.5	1,409.5
Intangible assets	15.7	16.0
Goodwill	36.1	36.1
Interest in an associate	3.8	3.8
Investments	1.4	2.2
Taxation recoverable	5.8	8.2
Deferred tax assets	13.0	10.9
Consolidated total assets	1,547.3	1,486.7
Liabilities		
Reportable segment liabilities	(945.3)	(792.6)
Taxation payable	(13.4)	(11.9)
Deferred tax liabilities	(3.4)	(3.4)
Consolidated total liabilities	(962.1)	(807.9)

4. Profit before taxation

Profit before taxation is arrived at after charging/(crediting) the following:

	Six months ended 30 September 2022 (Unaudited) US\$ million	2021 (Unaudited) US\$ million
Cost of inventories	835.4	809.9
Dividend income <i>(Notes (i) & (ii))</i>	-	(3.6)
Fair value loss on investments measured at fair value through profit or loss <i>(Notes (i) & (ii))</i>	0.8	3.4
Government subsidies <i>(Note (i))</i>	(2.0)	(0.2)
Depreciation of tangible assets	17.8	20.4
Depreciation of right-of-use assets	10.4	11.1
Amortisation of intangible assets	0.3	0.4
Write-down of inventories, net of reversals	10.8	3.9
Loss allowance for trade debtors	0.5	0.3
Reversal of loss allowance for trade debtors	(0.2)	(0.8)
Interest on lease liabilities <i>(Note (iii))</i>	4.0	4.7
Other interest expenses, net <i>(Note (iii))</i>	1.7	0.1
Net foreign exchange loss	1.3	-

Notes:

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

(ii) The Group invests in an investment holding company which has a shareholding in a listed entity that designs and distributes integrated circuit products (the "Investment"). Upon the partial disposal of the listed entity during the six months ended 30 September 2021, a dividend income of US\$3.6 million was received from the investment holding company and the Group recognised a fair value loss of the same amount on the Investment accordingly. A fair value loss of US\$0.8 million (six months ended 30 September 2021: fair value gain of US\$0.2 million) on the Investment relating to the unsold shareholding in the listed entity was also recorded in the current period.

(iii) Included in net finance expense in the Consolidated Statement of Profit or Loss.

5. Taxation

	Six months ended 30 September	
	2022 (Unaudited) US\$ million	2021 (Unaudited) US\$ million
Current tax		
- Hong Kong	7.1	6.0
- Overseas	6.7	5.6
(Over)/Under-provision in respect of prior years		
- Overseas	(0.6)	0.3
Deferred tax		
- Origination and reversal of temporary differences	(1.9)	(2.5)
	11.3	9.4
Current tax	13.2	11.9
Deferred tax	(1.9)	(2.5)
	11.3	9.4

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

6. Dividends

(a) Dividend attributable to the period:

	Six months ended 30 September	
	2022 (Unaudited) US\$ million	2021 (Unaudited) US\$ million
Interim dividend of US17.0 cents (2021: US17.0 cents) per share declared	43.0	42.9

The interim dividend was proposed after the end of the relevant financial period and has not been recognised as a liability at the end of the relevant financial period.

(b) At a meeting held on 16 May 2022, the Directors proposed a final dividend of US51.0 cents (2021: US74.0 cents) per ordinary share for the year ended 31 March 2022, which was estimated to be US\$128.7 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2022. The final dividend was approved by shareholders at the annual general meeting on 13 July 2022. The final dividend paid in respect of the year ended 31 March 2022 totaled US\$128.9 million (2021: US\$186.8 million).

7. Earnings per Share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US\$82.0 million (2021: US\$76.9 million).

The calculation of basic earnings per share is based on the weighted average of 252.5 million (2021: 252.2 million) ordinary shares in issue during the period after adjusting for shares held for Share Purchase Scheme.

No material adjustment has been made to the basic earnings per share presented for the periods ended 30 September 2021 and 30 September 2022 as the Company did not have any significant dilutive potential ordinary shares during the periods.

8. Tangible Assets

During the six months ended 30 September 2022, the Group acquired items of tangible assets with cost of US\$16.1 million (six months ended 30 September 2021: US\$18.1 million).

9. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US\$549.0 million (31 March 2022: US\$384.9 million, 30 September 2021: US\$575.4 million) include trade debtors of US\$487.4 million (31 March 2022: US\$325.4 million, 30 September 2021: US\$507.9 million).

An ageing analysis of trade debtors, based on the invoice date and net of allowance, is as follows:

	30 September 2022 (Unaudited) US\$ million	31 March 2022 (Audited) US\$ million
0-30 days	303.7	190.0
31-60 days	132.5	92.0
61-90 days	38.9	23.8
>90 days	12.3	19.6
Total	487.4	325.4

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

10. Creditors and Accruals

Creditors and accruals of US\$644.5 million (31 March 2022: US\$567.2 million, 30 September 2021: US\$678.2 million) include trade creditors of US\$356.9 million (31 March 2022: US\$327.2 million, 30 September 2021: US\$403.1 million).

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

	30 September 2022 (Unaudited) US\$ million	31 March 2022 (Audited) US\$ million
0-30 days	92.8	106.2
31-60 days	84.9	74.3
61-90 days	74.0	61.7
>90 days	105.2	85.0
Total	356.9	327.2

INTERIM DIVIDEND

The board of Directors (the "Board") has declared an interim dividend (the "Interim Dividend") of US17.0 cents per ordinary share in respect of the six months ended 30 September 2022, payable on 15 December 2022 to the shareholders whose names appear on the register of members of the Company as at the close of business on 6 December 2022.

The Interim Dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive an equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange prevailing on 6 December 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 6 December 2022, during which no transfer of shares will be effected.

In order to qualify for the Interim Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the share registrars of the Company for registration no later than 4:30 p.m. (the local time of the relevant share registrar) on Monday, 5 December 2022.

The principal registrar is MUFG Fund Services (Bermuda) Limited, 4th Floor North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda and the branch registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

CHAIRMAN'S STATEMENT

VTech achieved a solid result in the first half of the financial year 2023, recording an increase in both revenue and profit. The growth in revenue came as the supply of materials improved, leading to better order fulfilment and resulting in higher sales in North America and Asia Pacific. Profitability was buoyed by an improvement in gross profit margin.

Results and Dividend

Group revenue for the six months ended 30 September 2022 rose by 4.5% to US\$1,164.8 million, from US\$1,114.8 million in the corresponding period last year. Higher sales in North America and Asia Pacific offset lower sales in Europe and Other Regions. The revenue growth was partially due to some shipments to major markets having been advanced in order to avoid logistics delays.

Profit attributable to shareholders of the Company increased by 6.6% to US\$82.0 million. The growth in profit was mainly attributable to higher gross profit margin as cost of materials, direct labour costs and manufacturing overheads decreased as a percentage of Group revenue. The improvement in gross profit margin also reflected the positive impact of price increases during the period. The increase in profit came despite a depreciation of the major currencies against the US dollar, and a continued rise in freight and other costs.

Basic earnings per share increased by 6.6% to US32.5 cents, compared to US30.5 cents in the same period of the financial year 2022.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, unchanged from the dividend declared in the first half of the financial year 2022.

Costs

The Group's gross profit margin in the first six months of the financial year 2023 was 28.3%, as compared with 27.4% in the same period last year.

The increase in gross profit margin was mainly attributable to the increase in selling prices and lower cost of materials, while direct labour costs and manufacturing overheads benefited from the productivity gains during the period. These offset the negative impact of the depreciation of the major currencies against the US dollar, as well as an increase in inventory provisions. These arose from early production and shipment of the Group's products to its overseas warehouses in order to mitigate higher freight costs and the risk of vessel capacity constraints during the peak season.

US-China Tensions

Tensions between mainland China and the US have continued to mount. On 7 October this year, the US Department of Commerce published a raft of new technology restrictions on mainland China, limiting its access to certain semiconductors and chip-making equipment. There is no impact on the Group's businesses from these measures. Neither the Group's products nor the equipment used in production is affected.

Manufacturing Footprint

VTech has embarked on a strategy of rationalising its manufacturing base in order to raise its competitiveness and position for further growth. The implementation of this strategy began in August 2018 with the acquisition of its first manufacturing facilities in Malaysia, at a site in Muar. Since then, the Group has expanded its production in Malaysia and to Mexico, with the acquisition of two more manufacturing facilities, in Penang in 2020 and Tecate in 2021. The facility in Tecate, which manufactures professional loudspeakers and other electronic products for customers in North America, is now contributing revenue to contract manufacturing services (CMS). As VTech expands its production base further, its manufacturing footprint will become increasingly global.

Segment Results

North America

Group revenue in North America increased by 6.5% to US\$530.5 million in the first six months of the financial year 2023. Higher sales of electronic learning products (ELPs) and CMS offset lower sales of telecommunication (TEL) products. North America remained VTech's largest market, accounting for 45.5% of Group revenue.

ELPs revenue in North America rose by 4.5% to US\$266.5 million, with a particularly strong increase in Canada. The growth was driven by higher sales of standalone products, as VTech strengthened its core learning product offerings. It also reflects the Group's success in delivering products on time and improving channel inventory, through adjusting production and shipment schedules to avoid logistics delays.

During the first nine months of the calendar year 2022, the Group maintained its leadership as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US¹. In Canada, VTech strengthened its position as the number one manufacturer in the infant, toddler and preschool toys category².

Standalone products saw sales growth for both VTech and LeapFrog branded products. For VTech, preschool products, KidiZoom® cameras, the Kidi line of products, Switch & Go® Dinos and Marble Rush™ all posted higher sales. VTech's new series of learning watches featuring favourite children's characters, including Paw Patrol, Bluey and Spidey, sold especially well. These gains offset declines in infant and toddler products, as well as the Go! Go! Smart family of products.

At LeapFrog, growth was driven by higher sales of infant and toddler products, LeapLand Adventures™ and eco-friendly toys, which offset a decline for preschool products. The launch of Magic Adventures Microscope™ and a new licensed version of LeapLand Adventures added to growth. Among core learning products, the line was strengthened by items carrying overt educational values such as A to Z Learn With Me Dictionary™ and 100 Things That Go™ book. These were joined by new eco-friendly toys such as Wooden AlphaPup™, Tappin' Colours 2-in-1 Xylophone™ and Interactive Learning Easel™. A particular hit at LeapFrog was My Pal Scout Smarty Paws™, which was included in Walmart's "2022 Top Toy List" for this holiday season.

¹ The NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, toddler figure and playset, walker, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ended September 2022

² The NPD Group, Retail Tracking Service, January 2022 – September 2022

Platform products saw sales decline, mainly due to lower sales of VTech products. For the VTech brand, sales of KidiZoom Smartwatches were higher as materials supply improved. However, this was insufficient to offset lower sales of Touch & Learn Activity Desk™, while sales of KidiBuzz™ held steady. LeapFrog sales increased slightly during the period. The interactive reading systems and Magic Adventures Globe™ benefited from increased distribution and expanded content. Sales of children's educational tablets, however, posted a decline. This led to a slight fall in subscriptions to LeapFrog Academy™.

During the first six months of the financial year 2023, the Group's ELPs again won awards and recommendations from toy and parenting industry experts, key retailers and toy advisory boards in the US. Eight VTech and six LeapFrog products were selected for *The Toy Insider's* 17th annual holiday gift guide. Among them, the VTech Level Up Gaming Chair™ and LeapFrog's Clean Sweep Learning Caddy™ were named to the highly coveted "Hot 20" list, highlighting the top toys of the holiday season. In addition, five products were named finalists in The Toy Foundation's "2022 Toy of the Year (TOTY) Awards". Level Up Gaming Chair and the 100 Things That Go book were vying for "Infant/Toddler Toy of the Year". VTech's DJ Beat Boxer™ and My Pal Scout Smarty Paws were both nominated for "Plush Toy of the Year". In the "Preschool Toy of the Year" category, Clean Sweep Learning Caddy was a finalist.

TEL products revenue in North America fell by 5.6% to US\$123.9 million. Commercial phones and residential phones reported sales declines, offsetting growth in other telecommunication products.

The decline in commercial phones resulted from lower sales of analog commercial phones, headsets and SIP (Session Initiation Protocol) phones. The tight supply of semiconductors led to reduced shipments of analog commercial phones, while sales of headsets decreased as a major customer reduced its orders. SIP phones experienced a sales decline owing to a delayed product launch. These declines offset growth in hotel phones. Sales of hotel phones were higher as the Group maintained a stable supply of products and a new series with revamped designs was launched that enjoyed a good market reception.

Sales of residential phones were lower. The US residential phone market has continued to decline and shipments were constrained by the tight supply of semiconductors. Despite this, the Group regained distribution in a key retailer and strengthened its leadership position in the US residential phones market during the period³.

Other telecommunication products, which comprise baby monitors, CareLine® residential phones and integrated access devices (IADs), posted a sales increase. Baby monitors saw higher sales on increased placements in major US retailers, while the new VTech and LeapFrog ranges were well-received by the market. CareLine residential phones grew due to higher sales of VTech branded products and a customer's products. IADs benefited from increased orders from an existing customer.

During the period, LeapFrog's LF930HD baby monitor was a winner in the "2022 National Parenting Product Awards" in the US. In Canada, VTech's BC8313 V-Hush™ Pro Sleep Training Soother and RM5764HD baby monitor, as well as LeapFrog's LF815HD baby monitor, gained "Parent Tested Parent Approved Seal of Approval" awards. In the first six months of the financial year 2023, VTech strengthened its number one position in the baby monitor market in the US and Canada combined⁴.

CMS revenue in North America increased by 25.5% to US\$140.1 million. Growth was mainly driven by professional audio equipment and industrial products, as business activity has continued to recover following the easing of social distancing measures and as component shortages have improved. Sales of professional audio equipment grew on increased demand for power amplifiers and loudspeakers. The growth of industrial products was driven by more orders for printed circuit board assembly (PCBA) for coin and note recognition machines and electronic locks. In contrast, sales of solid-state lighting declined as a major customer reduced orders, while sales of medical and health products remained stable.

³ MarketWise Consumer Insights, LLC, April 2022 – September 2022

⁴ The NPD Group/North America Retail Tracking Service, US & Canada, based on combined US converted dollar and unit share, April – September 2022 combined vs April – September 2021 combined

Europe

Group revenue in Europe decreased by 3.2% to US\$470.4 million in the first six months of the financial year 2023. Higher sales of ELPs were insufficient to offset lower sales of TEL products and CMS. Europe remained VTech's second largest market, accounting for 40.4% of Group revenue.

ELPs revenue in Europe rose by 5.4% to US\$159.3 million. The increase came despite the depreciation of the euro and sterling against the US dollar during the period. Sales of standalone products grew, offsetting declines in platform products. Among the Group's key markets, France, Germany, the Netherlands and Spain posted sales increases, compensating for a decline in the UK. In the first nine months of the calendar year 2022, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries⁵.

In standalone products, both VTech and LeapFrog branded products reported sales increases. For VTech, preschool products, electronic learning aids, KidiZoom cameras, the Kidi line of products, Marble Rush and eco-friendly toys saw growth, offsetting declines in the Toot-Toot family of products. Sales of infant and toddler products, as well as Switch & Go Dinos, held steady. For LeapFrog, preschool products and LeapLand Adventures posted sales increases. The launch of Magic Adventures Microscope and the new licensed version of LeapLand Adventures added to growth. This offset sales declines in the brand's infant and toddler products.

Both VTech and LeapFrog platform products saw lower sales. The decline for the VTech brand was mainly attributable to lower sales of children's educational tablets, KidiZoom Smartwatches and Touch & Learn Activity Desk. This offset growth in the KidiCom[®] range of products. At LeapFrog, higher sales of Magic Adventures Globe were offset by lower sales of interactive reading systems.

In the first six months of the financial year 2023, VTech ELPs won four "Grand Prix du Jouet 2022" awards given by *La Revue du Jouet* magazine in France. The award-winning products were Magic Adventures Microscope, Magic Lights 3D and SuperSound Karaoke™, with Magic Adventures Microscope gaining the top "Toy of the Year" award. Magic Adventures Microscope also picked up a "Toy of the Year Award 2022" from the Dutch Toy Association in the Netherlands. In Belgium, both Magic Adventures Microscope and Smart Chart Medical Kit™ were named "Toy of the Year 2022" by the Belgian Federation of Toys. In Spain, KidiZoom PrintCam™ and Magic Lights 3D were chosen as "Best Toy of the Year 2022" by the Spanish Association of Toy Manufacturers.

Revenue from TEL products in Europe decreased by 2.9% to US\$46.3 million. Commercial phones and other telecommunication products saw sales declines, offsetting growth in residential phones.

Commercial phones and other telecommunication products were affected by the economic slowdown in the region, which impacted sales of Snom branded SIP phones and hotel phones. Sales of CareLine residential phones were affected by the tight supply of semiconductors, while CAT-iq (Cordless Advanced Technology—internet and quality) handsets saw a sales decline due to reduced orders from customers. By contrast, VTech's award-winning range of baby monitors saw sales increase on the back of channel expansion and new product launches, including the introduction of LeapFrog branded baby monitors in Germany. During the period, VTech's RM7767HD baby monitor garnered three awards in the UK's "2022 Loved by Parents Awards", while V-Hush Pro Sleep Training Soother was named "Best Night Light".

The growth in residential phones in Europe was driven by increased orders from existing ODM (Original Design Manufacturing) customers and the launch of VTech branded products, with the Group increasing its penetration in the UK and successfully expanding into the German market.

CMS revenue in Europe decreased by 7.7% to US\$264.8 million. The growth from professional audio equipment, internet-of-things (IoT) products and smart energy storage systems failed to offset lower sales of wearables, medical and health products and communication products.

⁵ The NPD Group, Retail Tracking Service, January 2022 – September 2022

Sales of hearables declined as the demand for commercial headsets began to slow down as the pandemic receded, while end-market demand for the customer's Bluetooth headsets decreased owing to keen competition. In medical and health products, growth from hearing aids failed to offset a decline in hair removal products, which were negatively affected by the tight supply of critical components. Sales of communication products decreased as the upgrading of Wi-Fi routers that had occurred during the pandemic ended, compounded by the lack of critical components that limited VTech's ability to fulfil orders.

In contrast, sales of professional audio equipment increased, driven by higher orders for audio interface products and a recovery in demand for audio mixers following the pandemic. IoT products saw sales of smart meters, internet-connected thermostats and air-conditioning controls increase as market demand rose in response to soaring energy prices. Despite growth being constrained by the lack of critical components, sales of smart energy storage systems also trended higher. Sales of home appliances, meanwhile, remained stable during the period.

Asia Pacific

Group revenue in Asia Pacific increased by 27.9% to US\$152.2 million in the first six months of the financial year 2023, with all three product lines reporting growth. The region represented 13.1% of Group revenue.

Revenue from ELPs in Asia Pacific rose by 6.9% to US\$41.9 million, as higher sales in Australia and Japan offset lower sales in mainland China. In Australia, sales of both VTech and LeapFrog products reported good growth and during the first nine months of the calendar year 2022, VTech strengthened its position as the number one manufacturer in the infant and toddler toys category in Australia⁶. In Japan, growth came from rising sales to a major toy retailer and good sell-through of a jointly developed Smartwatch featuring the popular Japanese "Sumikkogurashi" characters. In mainland China, however, higher online sales were insufficient to offset lower sales from the offline channels. This was despite the successful launch of Marble Rush in the market and the strong performance of Magic Adventures Globe, which picked up an "Innovation Design Award" in China's "CBME (Children Baby Maternity Expo) Awards" during the period.

TEL products revenue in Asia Pacific increased by 4.5% to US\$13.9 million. Higher sales in Japan, Hong Kong and India offset lower sales in Australia. In Japan, orders for CareLine residential phones from a customer increased. In Hong Kong, higher sales of IADs led the growth, while sales of residential phones in India increased as an existing customer placed more orders. Sales in Australia were down due to lower sales of residential phones, as the market continued to shrink, while sales of baby monitors were held back by the semiconductor shortages. In August, the VTech RM7764HD baby monitor was a "Gold Winner" in "Best Baby Monitor 2022" in Australia's "Bounty Baby Awards".

CMS revenue in Asia Pacific increased by 45.0% to US\$96.4 million, with good performances across all major categories. Professional audio equipment was boosted by higher sales of DJ equipment, as component shortages improved and market demand recovered following the pandemic. This offset lower orders for USB streaming microphones for online KOLs (Key Opinion Leaders). Medical and health products recorded higher sales. Orders for diagnostic ultrasound systems benefited from hospitals rebalancing their budgets away from COVID-19 related equipment, while more orders were taken on for hearing aids as the supply of materials improved. Communication products sales were up, with orders for marine radios rising following a product redesign using components that are not in short supply.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 3.3% to US\$11.7 million in the first six months of the financial year 2023. The decrease was attributable to lower sales of TEL products and CMS. Other Regions accounted for 1.0% of Group revenue.

ELPs revenue in Other Regions increased by 10.3% to US\$6.4 million. Higher sales in Latin America and Africa offset lower sales in the Middle East.

⁶ The NPD Group, Retail Tracking Service, January 2022 – September 2022

TEL products revenue in Other Regions decreased by 14.5% to US\$5.3 million. The decline was attributable to sales decreases in Latin America and Africa, which offset an increase in the Middle East.

CMS revenue in Other Regions was immaterial in the first six months of the financial year 2023.

Outlook

The operating environment for the second half of the financial year 2023 appears complex and volatile. Rather than being transitory as forecast, high energy costs and high inflation are proving persistent. This has resulted in rising interest rates, with no sign of them peaking in the near term. Economic growth has consequently fallen sharply, with consumers becoming more price-sensitive and reducing discretionary purchases. This has caused high levels of channel inventory, leading retailers to delay orders. The strong US dollar is exerting additional pressure on retailers outside the US. The supply of some critical components, meanwhile, remains tight and logistics costs are higher than last year.

In light of this dramatic change in the operating environment, VTech is revising its full year outlook. Group revenue is now expected to post a decline year-on-year, while gross profit margin is anticipated to be stable. The Group has increased its focus on managing inventory, with higher advertising and promotional spend to ensure healthy sell-through during the holiday seasons. Cost controls are also being tightened. VTech will nevertheless continue to invest in developing new products and expanding geographically to drive future growth.

ELPs revenue, which was forecast to show modest growth year-on-year, is now expected to decline for the full year. In both North America and Europe, retailers are tightening their inventory management and are cautious about placing new orders. VTech has well-planned advertising and promotions in place to ensure good sell-through in the upcoming holiday seasons. Good momentum, meanwhile, is expected to continue in a number of key markets, notably Canada, Australia, Germany, Spain, and the Benelux countries, as the Group gains market share and launches more new products. Sales in mainland China are expected to improve in the second half as new products hit the shelves, but overall sales for the full year are anticipated to show a decline.

The outlook for TEL products has also been lowered from the previous forecast. Full-year revenue is now projected to decrease year-on-year, although sales are expected to improve in the second half. New baby monitor models with artificial intelligence features and a revamped line of hotel phones using contemporary designs will maintain the good momentum in these product lines. Sales of commercial phones are expected to recover as new products gradually hit the shelves, including the Snom D8 series of SIP desksets, multi-cell SIP DECT mobility system and work-from-anywhere series. Residential phone sales are anticipated to pick up in the second half. An improvement in component supply will enable VTech to increase its share of the North American market further, while in Europe gains in market share will be driven by the expanded distribution of its own brand products.

CMS revenue is now projected to be stable year-on-year. In the second half, sales are expected to slow as the supply of certain critical components remains tight, while economic uncertainty is leading customers to pare back inventory. Sales of hearables for the full year are expected to decline sharply owing to lower demand for commercial and mobile headsets. However, full year growth is still forecast across most major categories and the contribution from smart energy storage systems will become significant as the complete product line enters production. The facility in Mexico is now being ramped up to meet strong demand and the CMS business is planning further rationalisation of its production base to address customer requirements. Additional process improvements are being implemented to raise productivity.

The headwinds from the global economy are growing. However, VTech has a solid balance sheet and strong brands backed by product innovation and operational excellence. We are confident of managing the business through this challenging period and emerging as a stronger company.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

	Six months ended 30 September		Change US\$ million
	2022 US\$ million	2021 US\$ million	
Revenue	1,164.8	1,114.8	50.0
Gross profit	329.4	304.9	24.5
Gross profit margin	28.3%	27.4%	
Other net income	1.2	0.4	0.8
Total operating expenses	(231.6)	(214.5)	(17.1)
Total operating expenses as a percentage of revenue	19.9%	19.2%	
Operating profit	99.0	90.8	8.2
Operating profit margin	8.5%	8.1%	
Net finance expense	(5.7)	(4.8)	(0.9)
Share of results of an associate	-	0.3	(0.3)
Profit before taxation	93.3	86.3	7.0
Taxation	(11.3)	(9.4)	(1.9)
Effective tax rate	12.1%	10.9%	
Profit for the period and attributable to shareholders of the Company	82.0	76.9	5.1

Revenue

Group revenue for the six months ended 30 September 2022 increased by 4.5% to US\$1,164.8 million as compared with the same period of the previous financial year of US\$1,114.8 million. The increase in revenue was largely driven by the higher sales in North America and Asia Pacific, which offset the decrease in revenue in Europe and Other Regions.

	Six months ended 30 September 2022		Six months ended 30 September 2021		Increase / (decrease)	
	US\$ million	%	US\$ million	%	US\$ million	%
North America	530.5	45.5%	497.9	44.6%	32.6	6.5%
Europe	470.4	40.4%	485.8	43.6%	(15.4)	(3.2%)
Asia Pacific	152.2	13.1%	119.0	10.7%	33.2	27.9%
Other Regions	11.7	1.0%	12.1	1.1%	(0.4)	(3.3%)
	1,164.8	100.0%	1,114.8	100.0%	50.0	4.5%

Gross Profit/Margin

Gross profit for the six months ended 30 September 2022 was US\$329.4 million, an increase of US\$24.5 million or 8.0% compared with the same period last year. Gross profit margin for the period also increased from 27.4% to 28.3%. It was mainly attributable to the increase in selling prices and lower cost of materials, while direct labour costs and manufacturing overhead benefited from the productivity gains during the period. These offset the negative impact of the depreciation of the major foreign currencies against United States Dollar, as well as the increase in inventory provisions arising from the Group's early production and shipments of the Group's products to its overseas warehouses in order to mitigate the higher freight costs and the risk of vessel capacity constraints during the peak season of the financial year 2023.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2022 was US\$99.0 million, an increase of US\$8.2 million or 9.0% compared with the same period of the previous financial year. Operating profit margin also increased from 8.1% to 8.5%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit and gross profit margin, which offset the increase in total operating expenses. Operating profit for the six months ended 30 September 2022 also included government subsidies of US\$2.0 million in response to COVID-19, as compared with an amount of US\$0.2 million in the same period last year. The Group invests in an investment holding company which has a shareholding in a listed entity that designs and distributes integrated circuit products (the "Investment"). Other net income included a fair value loss of US\$0.8 million on the Investment, as compared with a fair value gain of US\$0.2 million in the same period last year.

Total operating expenses increased from US\$214.5 million to US\$231.6 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also increased from 19.2% to 19.9%.

Selling and distribution costs increased from US\$134.7 million to US\$150.7 million, an increase of 11.9% compared with the same period last year. It was mainly attributable to the increased spending on advertising and promotional activities. As a percentage of Group revenue, selling and distribution costs increased from 12.1% to 12.9%.

Administrative and other operating expenses increased from US\$37.2 million to US\$38.6 million compared with the same period last year. It was mainly due to a net exchange loss of US\$1.3 million arising from the Group's global operations in the ordinary course of business, while there was no exchange difference recorded in the corresponding period of last year. Administrative and other operating expenses as a percentage of Group revenue remained at 3.3%.

During the first half of the financial year 2023, the research and development expenses were US\$42.3 million, a decrease of 0.7% compared with the same period last year. It was mainly attributable to lower employee related costs. Research and development expenses as a percentage of Group revenue also decreased from 3.8% to 3.6%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2022 was US\$82.0 million, an increase of US\$5.1 million or 6.6% compared with the same period last year. Net profit margin also increased from 6.9% to 7.0%.

Basic earnings per share for the six months ended 30 September 2022 were US32.5 cents as compared to US30.5 cents in the first half of the previous financial year.

Dividends

Since the end of the relevant financial period, the directors of the Company (the "Directors") have declared an interim dividend of US\$17.0 cents per share, which is estimated to be US\$43.0 million.

Liquidity and Financial Resources

As at 30 September 2022, the Group had a net cash balance of US\$10.1 million, including deposits and cash of US\$103.3 million and bank loans of US\$93.2 million, a decrease of US\$15.7 million as compared with US\$25.8 million as of 30 September 2021. The decrease in net cash balance was mainly due to the lower opening cash balance and the unfavourable foreign currency exchange movements on the Group's net assets as a result of the depreciation of foreign currencies against United States Dollar during the period. These offset the lower dividend payment and the increase in net cash generated from operating activities compared with the same period of last year. Nevertheless, the Group's financial position remains strong and it has adequate liquidity to meet the current and future working capital requirements.

Working Capital

Stocks as of 30 September 2022 were US\$570.0 million, increased from US\$553.3 million as of 31 March 2022 with turnover days of 131 days. The higher stock level was mainly due to the early production and stock-up of the Group's products at its overseas warehouses in view of the risk of vessel capacity constraints during the peak season of financial year 2023. As compared with the corresponding period of last financial year, stocks decreased by US\$29.4 million or 4.9%, and turnover days also decreased from 141 days to 140 days. The lower stock level was mainly due to the decrease in raw materials as the supply constraints had eased compared with the same period last year.

Trade debtors as of 30 September 2022 were US\$487.4 million, increased from US\$325.4 million as of 31 March 2022 with turnover days of 65 days. This was mainly due to the seasonal nature of most of the Group's businesses. As compared with the corresponding period of last financial year, trade debtors decreased by US\$20.5 million or 4.0%, and turnover days also decreased from 66 days to 62 days.

Trade creditors as of 30 September 2022 were US\$356.9 million, increased from US\$327.2 million as of 31 March 2022 with turnover days of 106 days. As compared to the corresponding period of last financial year, trade creditors decreased by US\$46.2 million or 11.5%, while turnover days increased from 93 days to 108 days. The decrease in trade creditors was mainly due to the decrease in purchase of raw materials compared with the same period last year.

Treasury Policies

The Group's treasury policies are designed to mitigate the impact of fluctuations in foreign currency exchange rates arising from the Group's global operations. The Group principally uses forward foreign exchange contracts as appropriate to hedge the foreign exchange risks in the ordinary course of business. It is the Group's policy not to enter into derivative transactions for speculative purposes.

Capital Expenditure and Contingencies

For the six months ended 30 September 2022, the Group invested US\$16.1 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment, as well as the improvement of manufacturing working environment.

All of these capital expenditures were financed from internal resources.

As of 30 September 2022, the Group had no material contingencies.

CORPORATE GOVERNANCE

The Board and the management of the Company are committed to good corporate governance and the application of the principles including transparency, accountability and independence to achieve sustainable performance of the Company and enhance its value for the shareholders.

The Group also recognises that a comprehensive corporate governance management structure is crucial in helping the Company to implement its strategies and policies effectively and consistently throughout the Group, and safeguard the long-term interests of its shareholders. The Group has also continuously reviewed its policies and procedures to ensure that it meets the requirements of the applicable laws and regulations, industry best practices, global trends, and market expectations.

Corporate Governance Practices

The corporate governance rules applicable to the Company are the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules. Corporate governance practices adopted by the Company during the six months ended 30 September 2022 are in line and consistent with those practices set out in the Company’s 2022 Annual Report. Throughout the six months ended 30 September 2022, the Company has complied with all the code provisions set out in Part 2 of the Code and to a large extent the recommended best practices in the Code, except for the deviation from code provision C.2.1 of the Code as described below.

Under code provision C.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. As half of the Board members are Independent Non-executive Directors, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. Furthermore, as Dr. Allan WONG Chi Yun is the founder of the Group and has substantial professional experience in the industry, the Board believes that the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the sustainable development of the Group, and for the long-term interests of the shareholders.

VTech is also committed to following the Environmental, Social and Governance (“ESG”) Reporting Guide set out in Appendix 27 of the Listing Rules. Details of VTech’s ESG performance were set out in the Company’s 2022 Sustainability Report.

RISK MANAGEMENT AND INTERNAL CONTROL

Effective risk management plays an integral role in the overall achievement of the Group’s strategic objectives which are to ensure the resilience of our business for the long term. The Risk Management and Sustainability Committee continued to review the Group’s risk management and internal control systems, and monitor the sustainability performance progress during the six months ended 30 September 2022 and up to the date of this announcement. Details of the Group’s risk management and internal control systems were set out in the “Risk Management and Sustainability Committee Report” on pages 61 to 66 of the Company’s 2022 Annual Report.

Furthermore, the Data Security Governance Board reviewed and monitored the implementation and execution of the Data Security Policy and practices of the Group for the compliance with the latest privacy ordinances and data protection regulations in the respective countries during the six months ended 30 September 2022 and up to the date of this announcement. It also reviewed the implementation progress of the additional preventive measures, technological enhancement and staff trainings for mitigating the Group’s exposure to cybersecurity risks.

Based on the information received from the management (including the Risk Management and Sustainability Committee and the Data Security Governance Board), the external auditor and the Internal Audit Department, the Audit Committee is satisfied that the overall financial and operational controls, risk management and internal control systems, and the internal audit function of the Group for the six months ended 30 September 2022 and up to the date of this announcement continued to be effective and adequate.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules regarding securities transactions for both its Directors and senior management. After having made specific enquiries, all Directors and senior management confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the six months ended 30 September 2022.

REVIEW OF INTERIM RESULTS

The Audit Committee reviewed and discussed with management and the external auditor the Group’s unaudited Interim Financial Report and unaudited interim results for the six months ended 30 September 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company and its subsidiaries have not redeemed any of its shares during the six months ended 30 September 2022. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the six months ended 30 September 2022, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 129,100 Company’s shares at a consideration of approximately US\$0.8 million.

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

Hong Kong, 10 November 2022

As at the date of this announcement, the Executive Directors of the Company are Dr. Allan WONG Chi Yun (Chairman and Group Chief Executive Officer), Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong. The Non-executive Director of the Company is Mr. William WONG Yee Lai. The Independent Non-executive Directors of the Company are Dr. William FUNG Kwok Lun, Professor KO Ping Keung, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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