VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

PERFORMANCE HIGHLIGHTS

- COVID-19 brought unprecedented challenges to the Group's operations
- Group revenue was flat at US$1,123.6 million
- Gross profit margin improved from 30.7% to 31.8%
- Profit attributable to shareholders of the Company rose 4.7% to US$123.6 million
- Interim dividend of US17.0 cents per ordinary share, unchanged from the dividend declared in the corresponding period last year
- Strong balance sheet, with higher net cash and lower inventory

UNAUDITED INTERIM RESULTS

The directors (the "Directors") of VTech Holdings Limited (the "Company") announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2020 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 2020

	Note	**Six months ended 30 September** **2020** **(Unaudited)** **US$ million**	2019 (Unaudited) US$ million	Year ended 31 March 2020 (Audited) US$ million
Revenue	3	**1,123.6**	1,124.1	2,165.5
Cost of sales		**(766.6)**	(779.3)	(1,501.9)
Gross profit		**357.0**	344.8	663.6
Other net income	4	**2.9**	8.5	5.9
Selling and distribution costs		**(135.2)**	(138.5)	(296.3)
Administrative and other operating expenses		**(40.4)**	(39.2)	(71.8)
Research and development expenses		**(41.7)**	(40.7)	(81.7)
Operating profit	3(b)	**142.6**	134.9	219.7
Net finance expense	4	**(3.4)**	(3.2)	(7.4)
Share of results of an associate		**0.1**	-	-
Profit before taxation	4	**139.3**	131.7	212.3
Taxation	5	**(15.7)**	(13.7)	(21.6)
Profit for the period/year and attributable to shareholders of the Company		**123.6**	118.0	190.7
Earnings per share (US cents)	7			
- Basic		**49.0**	46.9	75.7
- Diluted		**49.0**	46.9	75.7

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

	Six months ended 30 September		Year ended 31 March
	2020	2019	2020
	(Unaudited)	(Unaudited)	(Audited)
	US$ million	US$ million	US$ million
Profit for the period/year	**123.6**	118.0	190.7
Other comprehensive income for the period/year			
Item that will not be reclassified to profit or loss:			
Effect of remeasurement of net obligations/assets on defined benefit scheme, net of deferred tax	**-**	-	(3.7)
	-	-	(3.7)
Items that may be reclassified subsequently to profit or loss:			
Fair value (losses)/gains on hedging, net of deferred tax	**(4.0)**	(4.9)	3.3
Realisation on hedging reserve, net of deferred tax	**(1.9)**	(2.9)	(5.4)
Exchange translation differences	**18.0**	(13.7)	(13.2)
	12.1	(21.5)	(15.3)
Other comprehensive income for the period/year	**12.1**	(21.5)	(19.0)
Total comprehensive income for the period/year	**135.7**	96.5	171.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

	Note	30 September 2020 (Unaudited) US$ million	30 September 2019 (Unaudited) US$ million	31 March 2020 (Audited) US$ million
Non-current assets				
Tangible assets	8	**86.7**	80.1	76.0
Deposit for acquisition of tangible assets		**-**	-	1.4
Right-of-use assets		**148.7**	127.9	154.8
Intangible assets		**17.1**	18.2	17.7
Goodwill		**36.1**	36.1	36.1
Interest in an associate		**3.1**	-	3.0
Investments		**7.2**	13.9	8.3
Net assets on defined benefit scheme		**-**	2.5	-
Deferred tax assets		**8.4**	8.8	8.3
		307.3	287.5	305.6
Current assets				
Stocks		**436.1**	457.3	372.6
Debtors, deposits and prepayments	9	**580.0**	540.1	272.1
Taxation recoverable		**2.9**	4.1	2.6
Deposits and cash		**137.1**	102.5	242.5
		1,156.1	1,104.0	889.8
Current liabilities				
Creditors and accruals	10	**(605.0)**	(644.1)	(390.8)
Provisions for defective goods returns and other liabilities		**(26.9)**	(25.6)	(24.2)
Lease liabilities		**(16.8)**	(17.3)	(17.9)
Taxation payable		**(17.8)**	(12.8)	(9.0)
		(666.5)	(699.8)	(441.9)
Net current assets		**489.6**	404.2	447.9
Total assets less current liabilities		**796.9**	691.7	753.5
Non-current liabilities				
Net obligations on defined benefit scheme		**(1.9)**	-	(1.8)
Deferred tax liabilities		**(2.6)**	(2.9)	(2.9)
Lease liabilities		**(143.3)**	(120.5)	(147.3)
		(147.8)	(123.4)	(152.0)
Net assets		**649.1**	568.3	601.5
Capital and reserves				
Share capital		**12.6**	12.6	12.6
Reserves		**636.5**	555.7	588.9
Total equity		**649.1**	568.3	601.5

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 2020 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 9 November 2020.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2020 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 2020 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 2020 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 18 May 2020.

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 3, *Definition of a business*
- Amendments to IFRS 16, *Covid-19-related rent concessions*

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 the 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 2020

	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	**278.1**	**157.6**	**40.4**	**5.9**	**482.0**
Telecommunication Products	**130.2**	**52.5**	**15.8**	**6.9**	**205.4**
Contract Manufacturing Services	**84.6**	**277.4**	**74.0**	**0.2**	**436.2**
Total	**492.9**	**487.5**	**130.2**	**13.0**	**1,123.6**

Six months ended 30 September 2019

	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	253.2	145.7	44.6	9.1	452.6
Telecommunication Products	125.6	57.3	13.7	9.5	206.1
Contract Manufacturing Services	143.1	237.6	83.6	1.1	465.4
Total	521.9	440.6	141.9	19.7	1,124.1

(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.

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, lease liabilities and net obligations on defined benefit scheme 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 Six months ended 30 September		**Reportable segment profit Six months ended 30 September**	
	2020 (Unaudited) US$ million	2019 (Unaudited) US$ million	**2020 (Unaudited) US$ million**	2019 (Unaudited) US$ million
North America	**492.9**	521.9	**78.1**	71.3
Europe	**487.5**	440.6	**37.9**	29.3
Asia Pacific	**130.2**	141.9	**23.8**	30.4
Other Regions	**13.0**	19.7	**2.8**	3.9
	1,123.6	1,124.1	**142.6**	134.9

	Reportable segment assets		**Reportable segment liabilities**	
	30 September 2020 (Unaudited) US$ million	31 March 2020 (Audited) US$ million	**30 September 2020 (Unaudited) US$ million**	31 March 2020 (Audited) US$ million
North America	**239.4**	160.3	**(104.6)**	(83.0)
Europe	**226.7**	114.0	**(55.5)**	(35.2)
Asia Pacific	**922.5**	845.1	**(633.8)**	(463.8)
Other Regions	**-**	-	**-**	-
	1,388.6	1,119.4	**(793.9)**	(582.0)

3. Revenue and Segment Information *(continued)*

(b) Segment Information *(continued)*

(iii) Reconciliations of reportable segment assets and liabilities

	30 September 2020 (Unaudited) US$ million	31 March 2020 (Audited) US$ million
Assets		
Reportable segment assets	**1,388.6**	1,119.4
Intangible assets	**17.1**	17.7
Goodwill	**36.1**	36.1
Interest in an associate	**3.1**	3.0
Investments	**7.2**	8.3
Taxation recoverable	**2.9**	2.6
Deferred tax assets	**8.4**	8.3
Consolidated total assets	**1,463.4**	1,195.4
Liabilities		
Reportable segment liabilities	**(793.9)**	(582.0)
Taxation payable	**(17.8)**	(9.0)
Deferred tax liabilities	**(2.6)**	(2.9)
Consolidated total liabilities	**(814.3)**	(593.9)

4. Profit before taxation

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

	Six months ended 30 September	
	2020 (Unaudited) US$ million	2019 (Unaudited) US$ million
Cost of inventories	**766.6**	779.3
Fair value loss / (gain) on investments measured at fair value through profit or loss *(Note (i))*	**1.1**	(8.5)
Government subsidies *(Note (i))*	**(4.0)**	-
Depreciation of tangible assets	**17.6**	18.9
Depreciation of right-of-use assets	**10.2**	8.8
Amortisation of intangible assets	**0.6**	0.4
Write-down of inventories, net of reversals	**6.1**	3.3
Loss allowance for trade debtors	**0.4**	0.2
Reversal of loss allowance for trade debtors	**(1.6)**	(0.9)
Interest on lease liabilities *(Note (ii))*	**3.4**	2.9
Other interest expenses, net *(Note (ii))*	**-**	0.3
Net foreign exchange gain	**(0.4)**	(0.3)

Notes:
(i) Included in other net income in the Consolidated Statement of Profit or Loss.
(ii) Included in net finance expense in the Consolidated Statement of Profit or Loss.

5. Taxation

	Six months ended 30 September 2020 (Unaudited) US$ million	2019 (Unaudited) US$ million
Current tax		
- Hong Kong	**11.5**	9.7
- Overseas	**4.2**	4.2
Over-provision in respect of prior years		
- Overseas	**(0.4)**	-
Deferred tax		
- Origination and reversal of temporary differences	**0.4**	(0.2)
	15.7	13.7
Current tax	**15.3**	13.9
Deferred tax	**0.4**	(0.2)
	15.7	13.7

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 2020 (Unaudited) US$ million	2019 (Unaudited) US$ million
Interim dividend of US17.0 cents (2019: US17.0 cents) per share declared	**42.9**	**42.8**

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 18 May 2020, the Directors proposed a final dividend of US36.0 cents (2019: US50.0 cents) per ordinary share for the year ended 31 March 2020, which was estimated to be US$90.6 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2020. The final dividend was approved by shareholders at the annual general meeting on 10 July 2020. The final dividend paid in respect of the year ended 31 March 2020 totaled US$90.8 million (2019: US$125.9 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$123.6 million (2019: US$118.0 million).

The calculation of basic earnings per share is based on the weighted average of 252.3 million (2019: 251.6 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 2019 and 30 September 2020 as the Company did not have any significant dilutive potential Awarded Shares during the periods.

8. Tangible Assets

During the six months ended 30 September 2020, the Group acquired items of tangible assets with a cost of US$26.0 million (six months ended 30 September 2019: US$17.1 million), including land and building of a manufacturing facility in Penang, Malaysia.

9. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US$580.0 million (31 March 2020: US$272.1 million, 30 September 2019: US$540.1 million) include trade debtors of US$521.7 million (31 March 2020: US$221.5 million, 30 September 2019: US$489.9 million).

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

	30 September 2020 (Unaudited) US$ million	31 March 2020 (Audited) US$ million
0-30 days	**331.4**	141.2
31-60 days	**157.5**	48.1
61-90 days	**24.9**	23.1
>90 days	**7.9**	9.1
Total	**521.7**	221.5

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$605.0 million (31 March 2020: US$390.8 million, 30 September 2019: US$644.1 million) include trade creditors of US$319.3 million (31 March 2020: US$195.4 million, 30 September 2019: US$400.8 million).

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

	30 September 2020 (Unaudited) US$ million	31 March 2020 (Audited) US$ million
0-30 days	**119.4**	66.6
31-60 days	**96.4**	36.0
61-90 days	**62.0**	44.1
>90 days	**41.5**	48.7
Total	**319.3**	195.4

11. Impacts of COVID-19 Pandemic

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group’s operating environment. The Group has been closely monitoring the development of the COVID-19 outbreak. As of the date of this announcement, the Group was not aware of any material adverse impact to the Group’s financial positions and operating results for the six months ended 30 September 2020.

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 2020, payable on 14 December 2020 to shareholders whose names appear on the register of members of the Company as at the close of business on 3 December 2020.

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 3 December 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 3 December 2020, 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 Wednesday, 2 December 2020.

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 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

CHAIRMAN'S STATEMENT

The coronavirus (COVID-19) pandemic has brought unprecedented challenges to most of the world's businesses. When VTech announced its annual results for the financial year 2020 in May this year, the Group's key markets were experiencing different levels of lockdown, with extensive closures of retail outlets, weak consumer sentiment and a severe slowdown in business activities. This resulted in very low order visibility and consequently a pessimistic outlook was given for the financial year 2021. Despite many uncertainties, sales for the first six months turned out to be better than expected and the Group reported stable revenue, an improved gross profit margin and higher profit for the period.

Results and Dividend

Group revenue for the six months ended 30 September 2020 was US$1,123.6 million, compared to US$1,124.1 million in the same period last year. Higher sales in Europe were offset by lower sales in North America, Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company grew by 4.7% to US$123.6 million. This was mainly attributable to higher gross profit, as costs declined. During the period, the Group recorded a fair value loss on an investment in a company that designs and distributes integrated circuit products, contrasting with a fair value gain in the corresponding period last year.

Basic earnings per share increased by 4.5% to US49.0 cents, compared to US46.9 cents in the comparable period of the financial year 2020.

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 2020.

Costs

The Group's gross profit margin in the first six months of the financial year 2021 was 31.8%, as compared with 30.7% in the same period last year. The improvement was due to a number of factors. Materials prices were lower, while direct labour costs and manufacturing overheads benefited from a weaker Renminbi. Further productivity gains and a more favourable product mix also improved the Group's gross profit margin.

US-China Trade Tensions

On 15 January 2020, a phase one trade deal was signed between mainland China and the US. A 15% tariff that was imposed on VTech residential cordless phones from 1 September 2019 was reduced to 7.5%, effective 14 February 2020. To mitigate the impact, the Group has started the production of residential phones at its new facility in Penang, Malaysia. Some of the Group's contract manufacturing services (CMS) customers have also been affected by the tariffs, ranging from 7.5% to 25%. CMS customers who wanted to relocate their production outside mainland China have already moved to VTech facility in Muar, Malaysia. The Group's electronic learning products (ELPs) are largely unaffected by the US tariffs.

COVID-19 Business Update

The pandemic has brought unprecedented challenges to the Group's operations. Early in 2020, with many countries in various degrees of lockdown, global supply chains were severely disrupted and consumer demand weakened dramatically.

In recent months, however, business operations have gradually returned to normal. Production and capacity utilisation at the Group's manufacturing facilities are now at pre-COVID-19 levels, while the supply chain is operating as normal. Consumer demand has also recovered strongly in some markets. It has been especially robust for products relating to working and staying at home, which has benefited some of the Group's product lines.

Globally, e-commerce has grown rapidly as consumers have shifted more to online purchases. Sales to e-tailers and other online channels expanded to 16.2% of total Group revenue during the first six months of the financial year 2021.

Restrictions on travel and meeting nevertheless mean new patterns of working, with a much greater reliance on carrying out tasks and managing businesses remotely. VTech has been coping well with these challenges and its global operations continue to run smoothly.

As for liquidity, VTech is in a strong financial position. The Group ended its half year with increased net cash and lower inventory.

While managing the effect of the pandemic on its businesses, VTech's priority has been to protect the health and safety of its employees and customers. The Group continues to ensure a safe working environment at all its locations worldwide, in line with government and World Health Organisation recommendations. VTech and its employees have also been giving much needed support to local communities, including financial donations and supporting children in need with educational toys.

Segment Results

North America

Group revenue in North America decreased by 5.6% to US$492.9 million in the first six months of the financial year 2021 as higher sales of ELPs and telecommunication (TEL) products were offset by lower CMS sales. North America remained VTech's largest market, accounting for 43.9% of Group revenue.

ELPs revenue in North America rose by 9.8% to US$278.1 million, driven by higher sales of standalone products. The increase reflects the Group's strong position in electronic learning toys, a segment that has benefited from the pandemic, as parents and children spend more time at home. During the first nine months of the calendar year 2020, the Group strengthened its leadership as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[1]. In Canada, VTech maintained its position as the number one manufacturer in the infant, toddler and preschool toys category[2].

Growth in standalone products came from higher sales of both LeapFrog and VTech brands. LeapFrog sales were especially robust. Preschool items offering overt educational values including Learning Friends 100 Words Book™ and 100 Animals Book™ achieved strong sell-through. The Blue's Clues & You!™ series of licensed products performed strongly, with the Really Smart Handy Dandy Notebook selling particularly well. Sales of LeapBuilders®, however, registered a decline.

VTech standalone products benefited from rising sales of infant and toddler products, KidiZoom® cameras, other Kidi line products and the Go! Go! Smart family of products. These increases offset a decline in preschool products. There were innovative additions to the product line-up during the period. Go! Go! Smart Wheels® saw the addition of Ultimate Corkscrew Tower™. Building on the success of the popular robotic toy Myla the Magical Unicorn™, VTech launched Myla's Sparkling Friends™, a line of toys that brings colour play to life using fantastical characters. The new Go! Go! Cory Carson® vehicles and playsets hit the shelves during the period. The first two seasons of the associated animation, along with a special edition entitled "Go! Go! Cory Carson Summer Camp", are now streaming on Netflix.

Sales of platform products in North America declined slightly. At LeapFrog, the platform products business posted overall growth. The brand's children's educational tablets and interactive reading systems saw sales increases, offsetting a decline in RockIt Twist™. The growth was augmented by the introduction of Magic Adventures Globe™. Subscriptions to the LeapFrog Academy™ continued to grow steadily. At VTech, sales of platform products saw a decline, as higher sales of Touch & Learn Activity Desk™ were insufficient to compensate for lower sales of KidiZoom Smartwatches and KidiBuzz™.

During the first six months of the financial year 2021, the Group's ELPs gained further recognition from toy and parenting industry experts, key retailers and toy advisory boards in North America. KidiZoom Creator Cam and Helping Heroes Fire Station™ both made Walmart's "Top Rated by Kids" toy list. LeapFrog Speak & Learn Puppy™ and KidiZoom Creator Cam were included in *The Toy Insider's* "Hot 20" list, while KidiZoom Creator Cam, the LeapFrog 100 Animals Book and Blue's Clues & You! Really Smart Handy Dandy Notebook were selected for TTPM's "Holiday Most Wanted" list. A total of 11 VTech and LeapFrog products made it into *The Toy Insider* magazine's "2020 Holiday Gift Guide".

TEL products revenue in North America saw a 3.7% increase to US$130.2 million, mainly driven by higher sales of residential phones. Sales of commercial phones and other telecommunication products held steady.

During the period, sales of residential phones in North America rose as the work-from-home trend led consumers to replace and upgrade their fixed-line telephones. The VTech branded super-long-range cordless phone performed especially well. In the first half of the financial year 2021, VTech remained the exclusive supplier to a key retailer in the US and strengthened its leadership position in the US residential phones market[3].

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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 ending September 2020

2 The NPD Group, Retail Tracking Service

3 MarketWise Consumer Insights, LLC, April 2020 – September 2020

The commercial phones and other telecommunication products business in North America was stable. Small to medium sized business (SMB) phones, hotel phones, VoIP (Voice over Internet Protocol) phones and conference phones posted sales decreases, as they were hit by the slump in business-related activity and in travel. However, headsets achieved higher sales, boosted by the work-from-home boom. Baby monitors, the CareLine™ range and IADs (Integrated Access Devices) benefited from the stay-at-home advice as well, with the VTech 1080p 7-inch Smart Wi-Fi baby monitor selling particularly well. As a result, VTech baby monitors strengthened their position as the number one brand in the US and Canada[4].

CMS revenue in North America fell by 40.9% to US$84.6 million, with declines in all product categories. The reduction in revenue was primarily due to the negative impact of the pandemic. The professional audio industry was significantly impacted by the restrictions on public gatherings, with a major customer experiencing excess inventory as a result. A drop in replacement demand for coin and note recognition machines and over-inventory at an industrial printers customer contributed to the sales decline in industrial products. Medical and health products saw lower orders of hearing aids, as sales activities were significantly affected by the pandemic. Sales of solid-state lighting fell as contracts could not be concluded and project-based bidding ceased. Communication products recorded a sales decline as customers phased out their product ranges. The Group nonetheless managed to add new customers in the fields of professional audio equipment and industrial products during the period.

Europe

Group revenue in Europe increased by 10.6% to US$487.5 million in the first six months of the financial year 2021, as higher sales of ELPs and CMS offset lower revenue from TEL products. Europe remained VTech's second largest market, accounting for 43.4% of Group revenue.

ELPs revenue in Europe rose by 8.2% to US$157.6 million, with higher sales of both standalone and platform products. Geographically, sales increased in France, the UK, Germany and the Netherlands, while declining in Spain. In the first nine months of the calendar year 2020, VTech was the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries[5].

In standalone products, both the VTech and LeapFrog brands achieved higher sales. For the VTech brand, growth was led by preschool products, KidiZoom camera, other Kidi line products and Switch & Go Dinos®. This offset declines in infant products and the Toot-Toot family of products. The new Go! Go! Cory Carson vehicles and playsets were rolled out to the major European markets in September 2020 under the name Toot-Toot Cory Carson®. LeapFrog saw rising sales of infant, toddler and preschool products in the first half of the financial year, with strong sales of Learning Friends 100 Words Book and 100 Animals Book. This offset a decline for Bla Bla Blocks® (the name in Europe for LeapBuilders).

Platform products saw growth in sales of both VTech and LeapFrog branded products. For VTech, the main drivers were KidiZoom Smartwatches, Touch & Learn Activity Desk and children's educational tablets. Growth in these products offset a decline in KidiCom™ Max. At LeapFrog, the revenue increase was driven by higher sales of Magic Adventures Globe and interactive reading systems, which offset declines in RockIt Twist and children's educational tablets.

In the first six months of the financial year 2021, Speak & Learn Puppy and KidiZoom Video Studio HD were named "Best Infant Toy" and "Best High Tech Toy" respectively, in the "Grand Prix du Jouet 2020" awards given by *La Revue du Jouet* magazine in France.

Revenue from TEL products in Europe decreased by 8.4% to US$52.5 million in the first six months of the financial year 2021 as sales of residential phones, commercial phones and other telecommunication products declined.

[4] The NPD Group Inc., Retail Tracking Service, US & Canada, Baby Monitors, April 2020 – September 2020 combined vs. April 2019 – September 2019 combined

[5] The NPD Group, Retail Tracking Service

In Europe, the Group sells residential phones to major telephone companies in the region on an original design manufacturing basis. The pandemic resulted in reduced orders from these customers as their business activities slowed down.

For commercial phones and other telecommunication products, higher sales of CAT-iq (Cordless Advanced Technology - internet and quality) handsets, the CareLine range, IADs and headsets were insufficient to offset declines in baby monitors, VoIP phones and conference phones. Stay-at-home advice across Europe benefited sales of CAT-iq handsets, CareLine products, IADs and headsets, as people sought to upgrade their communication devices. Baby monitors saw sales decrease, however, as a major customer reduced orders. Lockdowns and travel restrictions led to the cancellation of trade shows and a slowdown in business activities, resulting in lower orders for VoIP phones and conference phones. Sales of the Group's hotel phones in Europe held steady, however.

During the period, VTech 1080p 7-inch Smart Wi-Fi baby monitor won three top awards from *Loved by Parents* magazine in the UK: "2020 Best Baby Monitor – Gold Winner", "2020 Best Video Monitor – Gold Winner" and "2020 Best Innovative Baby Monitor – Platinum Winner".

CMS revenue in Europe rose by 16.8% to US$277.4 million. Hearables, medical and health products, home appliances and communication products saw higher sales, offsetting declines in professional audio equipment, IoT (Internet-of-Things) products and switching mode power supplies.

Hearables recorded significant growth as demand for headsets was boosted by the need to work from home. A customer moving production of its new version of a true wireless headset to VTech also contributed to the sales increase. Medical and health products added a new customer during the period and saw sales of hair removal products rise, offsetting a decline in orders for hearing aids. Business from home appliances was stable, while communication products benefited from increasing orders for Wi-Fi routers. In contrast to these increases, professional audio equipment posted lower sales, as higher demand for audio interface equipment failed to offset lower orders for audio mixers and amplifiers. IoT products also saw sales decrease, as the pandemic significantly slowed down the installation of smart meters in the UK. Sales of internet-connected thermostats and air-conditioning controls remained stable. Sales of switching mode power supplies were lower as a customer continued to transfer production back in-house following a change in ownership.

Asia Pacific

Group revenue in Asia Pacific decreased by 8.2% to US$130.2 million in the first six months of the financial year 2021, as lower sales of ELPs and CMS offset higher sales of TEL products. The Asia Pacific region represented 11.6% of Group revenue.

Revenue from ELPs in Asia Pacific fell by 9.4% to US$40.4 million, as growth in Australia was offset by lower sales in mainland China. Australia saw a robust sales increase on strong sell-through of both the VTech and LeapFrog branded products. In the first nine months of the calendar year 2020, VTech gained market share and has become the number one manufacturer in the infant and toddler toys category in Australia[6]. In mainland China, growth in online sales was insufficient to compensate for a decline in the offline channels.

TEL products revenue in Asia Pacific increased by 15.3% to US$15.8 million, owing to higher sales in Australia, Japan and Hong Kong. In Australia, growth was mainly driven by baby monitors, while Japan saw increased orders for residential phones from an existing customer. In Hong Kong, IADs were the key driver of higher sales.

[6] The NPD Group, Retail Tracking Service

CMS revenue in Asia Pacific decreased by 11.5% to US$74.0 million as lower sales of medical and health products and home appliances offset growth in professional audio equipment and communication products. The movement control order imposed by the Malaysian government in mid-March also affected sales, as this caused the CMS production facility in Muar to shut down for several weeks. In medical and health products, sales of diagnostic ultrasound systems were lower as hospitals shifted their budgets to purchase COVID-19 related equipment. For home appliances, orders fell as a product reached the end of its life cycle, while orders for other products slowed down owing to the pandemic. Contrasting with these decreases, the growth in professional audio equipment was driven by a rise in revenue from a new customer supplying USB streaming microphones for online KOLs (Key Opinion Leaders). Sales of communication products were also higher, with orders for marine radios increasing as a second generation of products came on stream.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 34.0% to US$13.0 million in the first six months of the financial year 2021. The decrease was attributable to lower sales of all three product lines. Other Regions accounted for 1.1% of Group revenue.

ELPs revenue in Other Regions declined by 35.2% to US$5.9 million for the period as higher sales in Africa were offset by lower sales in the Middle East and Latin America.

TEL products revenue in Other Regions decreased by 27.4% to US$6.9 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 US$0.2 million in the first six months of the financial year 2021, as compared to US$1.1 million in the corresponding period of the prior financial year.

Outlook

The ongoing impact of the COVID-19 pandemic brings an unusually high degree of uncertainty to assessing the outlook for the remainder of the financial year. A resurgence in infection rates in the US and Europe, along with higher unemployment, could lead to a weakening of consumer sentiment in the Group’s key markets. Consequently, Group revenue for the full year is not expected to grow. Gross profit margin, meanwhile, is forecast to improve year-on-year. The Group is investing more on expanding online sales, in order to capitalise on the shift towards higher online purchasing.

ELPs revenue is forecast to remain broadly stable for the full financial year. In North America, the positive momentum at both VTech and LeapFrog brands is forecast to continue, with the sales outlook for LeapFrog preschool toys especially promising. In Europe, however, the nationwide lockdown imposed by the French, German and UK governments in late October and early November respectively may negatively impact holiday sales. In Asia Pacific, the trend in Australia is expected to remain robust. For mainland China, sales should pick up in the second half, as shipments to some of the maternity-infant-child specialty retailers resume and sales of other channels show continuous improvement.

For TEL products, revenue for the full year may decline slightly. Sales of residential phones are expected to hold steady, while the recovery in commercial phones is likely to remain slow. Paving the way for future growth, a new line of VoIP phones under the Snom brand will be rolled out in early 2021. There has been a good response to the latest range of hotel phones based on SIP (Session Initiation Protocol) and PSTN (Public Switched Telephone Network) technology. This bodes well for VTech being able to benefit from the market consolidation that is underway, although the challenges currently faced by the hospitality industry will dampen demand in the short term. The momentum in CAT-iq handsets, the CareLine range and IADs remains positive, while sales of baby monitors are anticipated to be stable.

CMS revenue is expected to increase for the full financial year, led by strong orders for headsets and a recovery in the other product categories. A new NPI (New Product Introduction) centre in Shenzhen will open up additional business avenues. It aims to capture orders from start-ups worldwide, in particular the growing number in mainland China's Greater Bay Area. State-of-the-art equipment is currently being installed and the centre should be fully operational by the end of 2020. In Malaysia, with the phase one expansion of the CMS facility in Muar now complete, work is moving ahead on phase two, raising capacity by 50%.

The acquisition of the Group's second manufacturing facility in Penang, Malaysia was completed in July 2020. Comprising 500,000 square feet of buildings, it will be used for manufacturing ELPs and TEL products destined for the US market.

The macro-economic environment remains highly uncertain, but VTech has managed to navigate the turbulence so far. Our solid balance sheet, strong line-up of innovative products and operational excellence should enable us to gain further market share and hence create long-term value for our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

	Six months ended 30 September		
	2020 US$ million	2019 US$ million	Change US$ million
Revenue	**1,123.6**	1,124.1	(0.5)
Gross profit	**357.0**	344.8	12.2
Gross profit margin	**31.8%**	30.7%	
Other net income	**2.9**	8.5	(5.6)
Total operating expenses	**(217.3)**	(218.4)	1.1
Total operating expenses as a percentage of revenue	**19.3%**	19.4%	
Operating profit	**142.6**	134.9	7.7
Operating profit margin	**12.7%**	12.0%	
Net finance expense	**(3.4)**	(3.2)	(0.2)
Share of results of an associate	**0.1**	-	0.1
Profit before taxation	**139.3**	131.7	7.6
Taxation	**(15.7)**	(13.7)	(2.0)
Effective tax rate	**11.3%**	10.4%	
Profit for the period and attributable to shareholders of the Company	**123.6**	118.0	5.6

Revenue

Group revenue for the six months ended 30 September 2020 moderately decreased to US$1,123.6 million as compared with the same period of the previous financial year of US$1,124.1 million. The decrease in revenue was largely driven by the lower sales in North America, Asia Pacific and other regions, which offset the increase in revenue in Europe.

	Six months ended 30 September 2020		Six months ended 30 September 2019		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**492.9**	**43.9%**	521.9	46.4%	(29.0)	(5.6%)
Europe	**487.5**	**43.4%**	440.6	39.2%	46.9	10.6%
Asia Pacific	**130.2**	**11.6%**	141.9	12.6%	(11.7)	(8.2%)
Other Regions	**13.0**	**1.1%**	19.7	1.8%	(6.7)	(34.0%)
	1,123.6	**100.0%**	1,124.1	100.0%	(0.5)	-

Gross Profit/Margin

Gross profit for the six months ended 30 September 2020 was US$357.0 million, an increase of US$12.2 million or 3.5% compared with the same period last year. Gross profit margin for the period also increased from 30.7% to 31.8%. It was mainly attributable to lower materials prices, while direct labour costs and manufacturing overheads benefited from a weaker Renminbi. Further productivity gains and a more favourable product mix also contributed to the improvement of gross profit margin.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2020 was US$142.6 million, an increase of US$7.7 million or 5.7% compared with the same period of the previous financial year. Operating profit margin also increased from 12.0% to 12.7%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit and gross profit margin as well as the decrease in total operating expenses. Operating profit for the six months ended 30 September 2020 also included the fair value loss of US$1.1 million on an investment in a company that designs and distributes integrated circuit products as compared with a fair value gain of US$8.5 million in the same period last year. Government subsidies of US$4.0 million received from various countries in response to COVID-19 were also recorded in the current period.

Total operating expenses decreased from US$218.4 million to US$217.3 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also dropped from 19.4% to 19.3%.

Selling and distribution costs decreased from US$138.5 million to US$135.2 million, a decrease of 2.4% compared with the same period last year. It was mainly attributable to the reduction of employee related costs and the distribution costs. As a percentage of Group revenue, selling and distribution costs also decreased from 12.3% to 12.0%.

Administrative and other operating expenses increased from US$39.2 million to US$40.4 million compared with the same period last year. It was mainly due to the increase of employee related costs. The net exchange gain arising from the Group's global operations in the ordinary course of business was US$0.4 million, as compared with net exchange gain of US$0.3 million in the corresponding period of last year. Administrative and other operating expenses as a percentage of Group revenue also increased from 3.5% to 3.6%.

During the first half of the financial year 2021, the research and development expenses were US$41.7 million, an increase of 2.5% compared with the same period last year. The increase was mainly attributable to higher employee related costs. Research and development expenses as a percentage of Group revenue also increased from 3.6% to 3.7%.

Taxation

Taxation charges increased from US$13.7 million in the last financial period to US$15.7 million in the first half of financial year 2021. The effective tax rate also increased from 10.4% to 11.3% as the Group recorded a fair value gain of US$8.5 million in the last financial period on an investment which is not subject to tax.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2020 was US$123.6 million, an increase of US$5.6 million or 4.7% compared with the same period last year. Net profit margin also increased from 10.5% to 11.0%.

Basic earnings per share for the six months ended 30 September 2020 were US49.0 cents as compared to US46.9 cents in the first half of the previous financial year.

Dividends

Since the end of the relevant financial period, the Directors have declared an interim dividend of US17.0 cents per share, which is estimated to be US$42.9 million.

Liquidity and Financial Resources

The Group's financial resources remain strong. As of 30 September 2020, the Group had deposits and cash of US$137.1 million and was debt-free. The Group also has adequate liquidity to meet its current and future working capital requirements.

Working Capital

Stocks as of 30 September 2020 were US$436.1 million, increased from US$372.6 million as of 31 March 2020 with turnover days of 102 days. The higher stock level was primarily due to the higher demand of the Group's products in the second half of the financial year and the seasonality of most of the Group's businesses. As compared with the corresponding period of last financial year, stocks decreased by US$21.2 million or 4.6%, and turnover days also decreased from 141 days to 120 days. The reduction resulted from Group's effort to tighten the management of stock level in response to the impact of COVID-19.

Trade debtors as of 30 September 2020 were US$521.7 million, increased from US$221.5 million as of 31 March 2020 with turnover days of 63 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 increased by US$31.8 million or 6.5%, while turnover days decreased from 62 days to 60 days. The increase in trade debtors was mainly due to the increase in sales in the second quarter of the financial year compared with the same period last year.

Trade creditors as of 30 September 2020 were US$319.3 million, increased from US$195.4 million as of 31 March 2020 with turnover days of 93 days. As compared to the corresponding period of last financial year, trade creditors decreased by US$81.5 million or 20.3%, and turnover days also decreased from 105 days to 82 days.

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 use 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 2020, the Group invested US$26.0 million in the purchase of tangible assets including land and buildings, machinery and equipment, leasehold improvements, office equipment, as well as the improvement of manufacturing working environment.

In addition, the Group has completed its acquisition of second manufacturing facility in Penang, Malaysia in July 2020.

All of these capital expenditures were financed from internal resources.

As of 30 September 2020, the Group had no material contingencies.

CORPORATE GOVERNANCE PRACTICES

The Company is incorporated in Bermuda and has its shares listed on the Stock Exchange. The corporate governance rules applicable to the Company are the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 September 2020, 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 provisions A.2.1 and A.6.7 of the Code as described below.

Under code provision A.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. 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 half of the Board members are independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

Under code provision A.6.7 of the Code, independent non-executive directors should generally attend general meetings to gain and develop a balanced understanding of the views of shareholders. Professor KO Ping Keung was unable to attend the 2020 annual general meeting of the Company held on 10 July 2020 due to the travel restrictions arising from the COVID-19 pandemic. However, the Board believes that the presence of the other independent non-executive Directors at such general meeting has allowed the Board to gain and develop a balanced understanding of the views of the shareholders of the Company.

The Board has delegated authority to various Board Committees to deal with specific matters. An Audit Committee, a Nomination Committee, a Remuneration Committee, and a Risk Management and Sustainability Committee were established with defined terms of reference which are no less exacting than those set out in the Code. Corporate governance practices adopted by the Company during the six months ended 30 September 2020 are in line and consistent with those practices set out in the Company's 2020 Annual Report.

AUDIT COMMITTEE

The Audit Committee has held two meetings during the financial period and up to the date of this announcement. In addition to the Audit Committee members, the meetings were attended by the Group Chief Executive Officer, the Company Secretary and Group Chief Compliance Officer, the Group Chief Financial Officer and the external auditor. The work performed by the Audit Committee during the financial period and up to the date of this announcement included, but not limited to, reviewing the following before recommending them to the Board for consideration and approval:

- Group’s audited consolidated financial statements and reports for the year ended 31 March 2020;
- report from the external auditor for the year ended 31 March 2020;
- corporate governance report setting out the corporate governance policies and practices in the 2020 Annual Report in compliance with the Code;
- training and continuous professional development of the Directors and senior management for the year ended 31 March 2020;
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group’s accounting, financial reporting and internal audit functions for the year ended 31 March 2020;
- fee level and nature of non-audit work performed by the external auditor for the year ended 31 March 2020;
- re-appointment of the external auditor and its remuneration for the year ending 31 March 2021;
- 2020 Sustainability Report;
- Group’s unaudited Interim Financial Report for the six months ended 30 September 2020;
- report from the external auditor based on limited agreed-upon procedures on the Group’s unaudited interim results for the six months ended 30 September 2020;
- corporate governance section setting out the corporate governance policies and practices in the 2020/2021 Interim Report in compliance with the Code;
- accounting principles and practices adopted by the Group;
- respective audit plans of the internal and external auditors;
- significant findings by the Internal Audit Department and recommendations for corrective actions; and
- reports made under the Whistleblowing Policy.

In addition to the above, the Audit Committee assisted the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial period. It reviewed the process by which the Group evaluates its control environment and risk assessment procedures, and the way in which business and control risks are managed on a regular basis.

It should be noted that a system of internal control, no matter how well it is designed and operated, can only provide reasonable but not absolute assurance that the objectives of the system of internal control, such as safeguarding assets from inappropriate use or ensuring compliance with regulations, are met. As a result, it should not be expected that a system of internal control will prevent or detect all errors and frauds.

Based on the information received from the management, 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 system, and the internal audit function of the Group 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 by Directors and senior management. After having made specific enquiries, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the six months ended 30 September 2020.

REVIEW OF INTERIM RESULTS

The Group's unaudited interim results for the six months ended 30 September 2020 have been reviewed by the Audit Committee.

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 2020. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial period, 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 37,000 Company's shares at a consideration of approximately US$0.2 million.

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

Hong Kong, 9 November 2020

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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