VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

PERFORMANCE HIGHLIGHTS

- Global materials shortages, supply chain disruptions and rising costs affected results
- Group revenue decreased 0.8% to US$1,114.8 million
- Gross profit margin fell from 31.8% to 27.4%
- Profit attributable to shareholders of the Company declined 37.8% to US$76.9 million
- Interim dividend of US17.0 cents per ordinary share, remained unchanged
- Financial position remained 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 2021 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 2021

	Note	**Six months ended 30 September** **2021** **(Unaudited)** **US$ million**	2020 (Unaudited) US$ million	Year ended 31 March 2021 (Audited) US$ million
Revenue	3	**1,114.8**	1,123.6	2,372.3
Cost of sales		**(809.9)**	(766.6)	(1,645.7)
Gross profit		**304.9**	357.0	726.6
Other net income	4	**0.4**	2.9	4.2
Selling and distribution costs		**(134.7)**	(135.2)	(295.5)
Administrative and other operating expenses		**(37.2)**	(40.4)	(82.7)
Research and development expenses		**(42.6)**	(41.7)	(86.4)
Operating profit	3(b)	**90.8**	142.6	266.2
Net finance expense	4	**(4.8)**	(3.4)	(7.3)
Share of results of an associate		**0.3**	0.1	0.4
Profit before taxation	4	**86.3**	139.3	259.3
Taxation	5	**(9.4)**	(15.7)	(28.4)
Profit for the period/year and attributable to shareholders of the Company		**76.9**	123.6	230.9
Earnings per share (US cents)	7			
- Basic		**30.5**	49.0	91.6
- Diluted		**30.5**	49.0	91.6

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2021

	Six months ended 30 September 2021 (Unaudited) US$ million	**Six months ended 30 September** 2020 (Unaudited) US$ million	Year ended 31 March 2021 (Audited) US$ million
Profit for the period/year	**76.9**	123.6	230.9
Other comprehensive income for the period/year			
Item that will not be reclassified to profit or loss:			
Effect of remeasurement of net assets /obligations on defined benefit scheme, net of deferred tax	**-**	-	8.0
	-	-	8.0
Items that may be reclassified subsequently to profit or loss:			
Fair value gains /(losses) on hedging, net of deferred tax	**6.9**	(4.0)	(2.7)
Realisation on hedging reserve, net of deferred tax	**1.6**	(1.9)	(3.3)
Exchange translation differences	**(3.4)**	18.0	27.6
	5.1	12.1	21.6
Other comprehensive income for the period/year	**5.1**	12.1	29.6
Total comprehensive income for the period/year	**82.0**	135.7	260.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	Note	30 September 2021 (Unaudited) US$ million	30 September 2020 (Unaudited) US$ million	31 March 2021 (Audited) US$ million
Non-current assets				
Tangible assets	8	**89.7**	86.7	92.2
Right-of-use assets		**199.3**	148.7	193.1
Intangible assets		**16.4**	17.1	16.8
Goodwill		**36.1**	36.1	36.1
Interest in an associate		**3.7**	3.1	3.4
Investments		**3.4**	7.2	6.8
Net assets on defined benefit scheme		**6.9**	-	6.9
Deferred tax assets		**12.1**	8.4	10.0
		367.6	307.3	365.3
Current assets				
Stocks		**599.4**	436.1	414.0
Debtors, deposits and prepayments	9	**575.4**	580.0	318.9
Taxation recoverable		**3.9**	2.9	3.6
Deposits and cash		**52.2**	137.1	343.8
		1,230.9	1,156.1	1,080.3
Current liabilities				
Creditors and accruals	10	**(678.2)**	(605.0)	(461.8)
Provisions for defective goods returns and other liabilities		**(27.9)**	(26.9)	(26.4)
Bank loans		**(26.4)**	-	-
Lease liabilities		**(22.5)**	(16.8)	(17.5)
Taxation payable		**(21.1)**	(17.8)	(17.3)
		(776.1)	(666.5)	(523.0)
Net current assets		**454.8**	489.6	557.3
Total assets less current liabilities		**822.4**	796.9	922.6
Non-current liabilities				
Net obligations on defined benefit scheme		**-**	(1.9)	-
Deferred tax liabilities		**(2.9)**	(2.6)	(2.9)
Lease liabilities		**(191.1)**	(143.3)	(188.6)
		(194.0)	(147.8)	(191.5)
Net assets		**628.4**	649.1	731.1
Capital and reserves				
Share capital		**12.6**	12.6	12.6
Reserves		**615.8**	636.5	718.5
Total equity		**628.4**	649.1	731.1

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 2021 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 15 November 2021.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2021 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 2021 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 2021.

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:

- Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021

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 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**

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

(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, bank loans, 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**	
	2021 (Unaudited) US$ million	2020 (Unaudited) US$ million	**2021 (Unaudited) US$ million**	2020 (Unaudited) US$ million
North America	**497.9**	492.9	**50.8**	78.1
Europe	**485.8**	487.5	**23.1**	37.9
Asia Pacific	**119.0**	130.2	**14.7**	23.8
Other Regions	**12.1**	13.0	**2.2**	2.8
	1,114.8	1,123.6	**90.8**	142.6

	Reportable segment assets		**Reportable segment liabilities**	
	30 September 2021 (Unaudited) US$ million	31 March 2021 (Audited) US$ million	**30 September 2021 (Unaudited) US$ million**	31 March 2021 (Audited) US$ million
North America	**224.2**	180.1	**(115.7)**	(83.7)
Europe	**206.8**	103.6	**(60.9)**	(36.7)
Asia Pacific	**1,091.9**	1,085.2	**(769.5)**	(573.9)
Other Regions	**-**	-	**-**	-
	1,522.9	1,368.9	**(946.1)**	(694.3)

3. Revenue and Segment Information *(continued)*

(b) Segment Information *(continued)*

(iii) Reconciliations of reportable segment assets and liabilities

	30 September 2021 (Unaudited) US$ million	31 March 2021 (Audited) US$ million
Assets		
Reportable segment assets	**1,522.9**	1,368.9
Intangible assets	**16.4**	16.8
Goodwill	**36.1**	36.1
Interest in an associate	**3.7**	3.4
Investments	**3.4**	6.8
Taxation recoverable	**3.9**	3.6
Deferred tax assets	**12.1**	10.0
Consolidated total assets	**1,598.5**	1,445.6
Liabilities		
Reportable segment liabilities	**(946.1)**	(694.3)
Taxation payable	**(21.1)**	(17.3)
Deferred tax liabilities	**(2.9)**	(2.9)
Consolidated total liabilities	**(970.1)**	(714.5)

4. Profit before taxation

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

	Six months ended 30 September	
	2021 (Unaudited) US$ million	2020 (Unaudited) US$ million
Cost of inventories	**809.9**	766.6
Dividend income *(Notes (i) & (ii))*	**(3.6)**	-
Fair value loss on investments measured at fair value through profit or loss *(Notes (i) & (ii))*	**3.4**	1.1
Government subsidies *(Note (i))*	**(0.2)**	(4.0)
Depreciation of tangible assets	**20.4**	17.6
Depreciation of right-of-use assets	**11.1**	10.2
Amortisation of intangible assets	**0.4**	0.6
Write-down of inventories, net of reversals	**3.9**	6.1
Loss allowance for trade debtors	**0.3**	0.4
Reversal of loss allowance for trade debtors	**(0.8)**	(1.6)
Interest on lease liabilities *(Note (iii))*	**4.7**	3.4
Other interest expenses, net *(Note (iii))*	**0.1**	-
Net foreign exchange gain	**-**	(0.4)

Notes:

(i) Included in other net income 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 period, 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 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 2021 (Unaudited) US$ million	2020 (Unaudited) US$ million
Current tax		
- Hong Kong	**6.0**	11.5
- Overseas	**5.6**	4.2
Under/(Over)-provision in respect of prior years		
- Overseas	**0.3**	(0.4)
Deferred tax		
- Origination and reversal of temporary differences	**(2.5)**	0.4
	9.4	15.7
Current tax	**11.9**	15.3
Deferred tax	**(2.5)**	0.4
	9.4	15.7

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 2021 (Unaudited) US$ million	2020 (Unaudited) US$ million
Interim dividend of US17.0 cents (2020: US17.0 cents) per share declared	**42.9**	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 18 May 2021, the Directors proposed a final dividend of US74.0 cents (2020: US36.0 cents) per ordinary share for the year ended 31 March 2021, which was estimated to be US$186.6 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2021. The final dividend was approved by shareholders at the annual general meeting on 13 July 2021. The final dividend paid in respect of the year ended 31 March 2021 totaled US$186.8 million (2020: US$90.8 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$76.9 million (2020: US$123.6 million).

The calculation of basic earnings per share is based on the weighted average of 252.2 million (2020: 252.3 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 2020 and 30 September 2021 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 2021, the Group acquired items of tangible assets with cost of US$18.1 million (six months ended 30 September 2021: US$26.0 million). A land and building of a manufacturing facility in Penang, Malaysia was acquired during the six months ended 30 September 2020.

9. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US$575.4 million (31 March 2021: US$318.9 million, 30 September 2020: US$580.0 million) include trade debtors of US$507.9 million (31 March 2021: US$270.7 million, 30 September 2020: US$521.7 million).

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

	30 September 2021 (Unaudited) US$ million	31 March 2021 (Audited) US$ million
0-30 days	**329.0**	178.3
31-60 days	**142.2**	58.9
61-90 days	**27.2**	25.7
>90 days	**9.5**	7.8
Total	**507.9**	270.7

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$678.2 million (31 March 2021: US$461.8 million, 30 September 2020: US$605.0 million) include trade creditors of US$403.1 million (31 March 2021: US$236.7 million, 30 September 2020: US$319.3 million).

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

	30 September 2021 (Unaudited) US$ million	31 March 2021 (Audited) US$ million
0-30 days	**112.3**	104.2
31-60 days	**111.0**	47.7
61-90 days	**86.2**	58.6
>90 days	**93.6**	26.2
Total	**403.1**	236.7

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 2021, payable on 17 December 2021 to the shareholders whose names appear on the register of members of the Company as at the close of business on 8 December 2021.

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 8 December 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 8 December 2021, 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 Tuesday, 7 December 2021.

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 first half of the financial year 2022 was challenging for VTech. Critical component shortages, supply chain issues and disruption of production in Malaysia due to coronavirus (COVID-19) negatively impacted the Group's manufacturing and order fulfilment, preventing VTech from meeting the strong demand for its products. This led to slightly lower revenue for the first six months. Meanwhile, soaring material prices and freight costs significantly affected the Group's gross profit margin, resulting in a substantial decline in profit attributable to shareholders of the Company.

Results and Dividend

Group revenue for the six months ended 30 September 2021 decreased by 0.8% to US$1,114.8 million, from US$1,123.6 million in the corresponding period last year. Higher sales in North America were insufficient to offset lower sales in Europe, Asia Pacific and Other Regions. The revenues of all three businesses were negatively impacted by global material shortages and shipment delays.

Profit attributable to shareholders of the Company fell by 37.8% to US$76.9 million. The decline in profit was mainly attributable to a drop in gross profit margin arising from the significant increase in costs and lower revenues from electronic learning products (ELPs) and telecommunication (TEL) products.

Basic earnings per share consequently decreased by 37.8% to US30.5 cents, compared to US49.0 cents in the same period of the financial year 2021.

The Board of Directors has declared an interim dividend of US17.0 cents per ordinary share, unchanged from the interim dividend declared in the first half of the financial year 2021.

Costs

The Group's gross profit margin in the first six months of the financial year 2022 was 27.4%, as compared with 31.8% in the same period last year.

The decline in gross profit margin was mainly attributable to higher material prices, especially of electronic components and plastic materials, as well as a drastic increase in freight costs arising from container shortages. Direct labour costs and manufacturing overheads were also higher than the same period last year, with appreciation of the Renminbi and the unstable supply of materials impacting productivity. A change in product mix also contributed to the decrease in gross profit margin.

Segment Results

North America

Group revenue in North America increased by 1.0% to US$497.9 million in the first six months of the financial year 2022. Higher sales of TEL products and contract manufacturing services (CMS) offset lower sales of ELPs. North America remained VTech's largest market, accounting for 44.6% of Group revenue.

ELPs revenue in North America declined by 8.3% to US$255.0 million, as material shortages and supply chain issues led to production and shipment delays, despite strong orders. This resulted in low channel inventory and the delayed availability of some new products. Both standalone and platform products experienced sales declines. During the first nine months of the calendar year 2021, the Group maintained its leadership as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[1]. In Canada, VTech remained the number one manufacturer in the infant, toddler and preschool toys category[2].

Standalone products saw lower sales of both VTech and LeapFrog brands. For VTech, growth in the KidiZoom® camera and Switch & Go® Dinos ranges was offset by declines in the Go! Go! Smart family of products, Go! Go! Cory Carson® vehicles and playsets, preschool products and the Kidi line. Sales of infant and toddler products, meanwhile, held steady. The standalone products category was expanded with the introduction of KidiZoom PrintCam™, which lets children create instant photos using cost-effective thermal paper. In addition, the introduction of the new Marble Rush™ line added incremental sales. It allows children to build their own marble run courses or use easy-to-follow building instructions to build pre-set designs, before launching marbles to bring the playsets to life. A new range of eco-friendly toys made from plant-based and reclaimed plastics saw four new vehicles added to the Go! Go! Smart Wheels® line and the launch of Sort & Recycle Ride-On Truck™.

For LeapFrog, sales of infant, toddler and preschool products were lower. The brand's offering was, however, expanded by the launch of exciting new products. LeapLand Adventures™ is a unique plug-and-play TV video game adventure for early learners, with curriculum-based games and activities. On-the-Go Story Pal™, a portable audio player for listening to stories, poems, songs and lullabies, also hit the shelves. It was joined by a new range of role-play toys, including Count-Along Basket & Scanner™ and Choppin' Fun Learning Pot™, an interactive cooking pot set that utilises plant-based plastic. The brand also launched a line of eco-friendly toys made with 100% FSC-certified wood, which kicked off with Touch & Learn Nature ABC Board™ and Interactive Wooden Animals Puzzle™.

Platform products recorded sales decreases for both the VTech and LeapFrog brands. At VTech, higher sales of Touch & Learn Activity Desk™ were insufficient to offset lower sales of KidiBuzz™ and KidiZoom Smartwatches, as the new KidiBuzz 3 and KidiZoom Smartwatch DX3 did not reach retail shelves until September owing to material supply and logistics delays. At LeapFrog, growth for Magic Adventures Globe™ was offset by declines in children's educational tablets and interactive reading systems. To strengthen the reading product offerings, the LeapStart® range saw the addition of LeapStart Learning Success Bundle™, while LeapReader® was expanded with the LeapReader Learn-to-Read 10-Book Mega Pack™.

During the first six months of the financial year 2022, the Group's ELPs won numerous awards and recommendations from toy and parenting industry experts, key retailers and toy advisory boards in the US. Hover Pup™ and KidiZoom PrintCam made Walmart's "Top Rated by Kids" toy list. There were ten mentions in *The Toy Insider* Holiday Gift Guide, which additionally named Choppin' Fun Learning Pot and KidiZoom PrintCam to its "Hot 20" list. Marble Rush Ultimate Set, 100 Words About Places I Go™, KidiGo™ Basketball Hoop and Get Ready For School Learning Desk™ were among many "2021 National Parenting Product Awards" winners. Go! Go! Cory Carson, the animated preschool series inspired by VTech's popular Go! Go! Smart Wheels line, won three Daytime Emmy Awards in July 2021.

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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 ended September 2021

[2] The NPD Group, Retail Tracking Service

TEL products revenue in North America rose by 0.8% to US$131.3 million, as higher sales of commercial phones and other telecommunication products offset lower sales of residential phones.

Commercial phones benefited from the gradual resumption of business activities. Snom branded VoIP (Voice over Internet Protocol) phones and small to medium sized business (SMB) phones saw higher sales, supported by increased orders from value-added resellers. Sales of hotel phones also recovered. For headsets, the sales increase came from an existing customer. Other telecommunication products were boosted by rising sales of baby monitors, as the Group secured additional placements in key retailers, expanded its online presence and launched new models. In the first six months of the financial year 2022, VTech baby monitors strengthened their position as the number one brand in the US and Canada[3]. They also scooped up a number of awards. In the US, six models garnered "Women's Choice Awards" while in Canada, the VTech brand picked up the 2021 "BrandSpark Most Trusted Awards" in the baby monitor category, based on a survey of more than 18,000 consumers.

Sales of residential phones saw a decline as the market returned to normal following the lifting of lockdowns, during which consumers had purchased more residential phones for home use. VTech nevertheless maintained its leadership position in the US residential phones market during the period[4].

CMS revenue in North America increased by 31.9% to US$111.6 million, as the lifting of COVID-19 restrictions led to a surge in demand for certain types of professional audio equipment, industrial products, solid-state lighting and medical and health products. Sales of professional audio equipment used in lecture theatres, music concerts and churches rose as social distancing measures were relaxed. Industrial products benefited from the resumption of business activities, boosting orders for printed circuit board assembly (PCBA) for coin and note recognition machines. Orders for industrial printers recovered as the market returned to normal. Sales of solid-state lighting rebounded as project-based demand resumed, while those of medical and health products trended higher, driven by increased orders for hearing aids. In July 2021, VTech CMS was selected as one of the "Top 10 Contract Manufacturing Services Companies-2021" by *Manufacturing Outlook* magazine.

Europe

Group revenue in Europe decreased by 0.3% to US$485.8 million in the first six months of the financial year 2022, as higher sales of CMS were offset by lower revenues from ELPs and TEL products. Europe remained VTech's second largest market, accounting for 43.6% of Group revenue.

ELPs revenue in Europe fell by 4.1% to US$151.1 million, with lower sales of both standalone and platform products. Material shortages and logistics issues led to production and shipment delays. These resulted in low inventory levels, the late availability of some new products and delayed sales contributions. Geographically, sales increased in France but declined in other key markets in the region. In the first nine months of the calendar year 2021, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries[5].

In standalone products, the LeapFrog brand achieved higher sales. Growth was led by infant, toddler and preschool products, augmented by the launch of LeapLand Adventures. For the VTech brand, higher sales of Switch & Go Dinos were offset by declines in other categories. In September, the new product line Marble Rush hit the shelves in all major European markets, adding incremental sales. During the first six months, VTech expanded its award-winning KidiZoom camera offerings with the addition of KidiZoom Video Studio HD and KidiZoom PrintCam in key European markets. Initial sell-through of both products has been good.

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[3] The NPD Group Inc., Retail Tracking Service, US & Canada, Baby Monitors, April 2021 – September 2021 combined vs April 2020 – September 2020 combined

[4] MarketWise Consumer Insights, LLC, April 2021 – September 2021

[5] The NPD Group, Retail Tracking Service

For platform products, both the VTech and LeapFrog brands posted sales declines. The decrease came as material supply and logistics problems resulted in certain new products not reaching the shelves until after September, delaying their sales contributions. These included a new generation of the interactive reading systems LeapStart/Magibook® and KidiCom® Advance 3.0, a sleek, touch-screen mobile phone-like device. VTech branded children's educational tablets recorded higher sales. These, however, were offset by lower revenues from KidiZoom Smartwatches, Touch & Learn Activity Desk and KidiCom Max. For LeapFrog, sales of interactive reading systems and Magic Adventures Globe registered declines.

In the first six months of the financial year 2022, VTech ELPs won five "Grand Prix du Jouet 2021" awards given by *La Revue du Jouet* magazine in France, the highest among all manufacturers. They included Ruby Mon Chat Paillettes Magiques (Glitter Me Kitten™), Kidi DJ Mix, Funny Sunny, Marble Rush Ultimate Set and Genio My First Laptop. In the UK, Marble Rush Adventure Set and Choppin' Fun Learning Pot gained gold and silver medals respectively in the "2021 Independent Toy Awards" given by Toy Shop UK.

Revenue from TEL products in Europe decreased by 9.1% to US$47.7 million as lower sales of residential phones offset growth in commercial phones and other telecommunication products.

In Europe, the Group sells residential phones in the region on an original design manufacturing basis. The shortage of semiconductors led to the deferral of shipments and a reduction in sales to customers.

Commercial phones and other telecommunication products benefited from the resumption of business activities as COVID-19 restrictions were eased, which led to rising sales of Snom branded business phones and a recovery in sales of hotel phones. CAT-iq (Cordless Advanced Technology – internet and quality) handsets also registered a sales increase as orders from an existing customer grew. Baby monitors, in contrast, experienced a sales decline, mainly due to the shortage of semiconductors. Despite this, VTech baby monitors made good inroads in the UK, following the launch of a new product line-up. Integrated access devices (IADs) saw the launch of a new product featuring Wi-Fi 6 in the first half of the financial year 2022. Sales of this product category were down, however, due to the shortage of semiconductors. During the period, VTech's VM5463 video baby monitor, featuring a 5-inch colour LCD screen with a pan and tilt camera, was named Best Baby Monitor – Gold Winner, Best Video Monitor – Platinum Winner and Best Innovative Baby Monitor – Platinum Winner in the "2021 Loved by Parents Awards" in the UK.

CMS revenue in Europe increased by 3.5% to US$287.0 million as COVID-19 restrictions eased. Sales of home appliances, IoT (Internet-of-Things) products, medical and health products, communication products and automotive related products rose, offsetting declines in professional audio equipment and hearables. Home appliances saw demand recover to pre-pandemic levels, while IoT products were boosted by the resumption of smart meter installations. Medical and health products grew on increasing orders for health and beauty products and hearing aids. Communication products benefited from higher orders for Wi-Fi routers, while sales of automotive related products were supported by increasing orders for smart electric vehicle chargers. Although demand for hearables remained strong, sales were negatively affected by material shortages, which also reduced sales of professional audio equipment for home use.

Asia Pacific

Group revenue in Asia Pacific decreased by 8.6% to US$119.0 million in the first six months of the financial year 2022, with lower sales of ELPs, TEL products and CMS. The region represented 10.7% of Group revenue.

Revenue from ELPs in Asia Pacific fell by 3.0% to US$39.2 million, primarily due to lower sales in Australia and mainland China. In Australia, sales of both VTech and LeapFrog products were lower. This was due to the closure of retail stores as a result of lockdowns, as well as to material shortages and shipment delays. Despite this, in the first nine months of the calendar year 2021, VTech maintained its position as the number one manufacturer in the infant and toddler toys category in Australia[6]. In mainland China, growth was seen in offline channels, boosted by the launch of a new range of infant and preschool products, as well as a new line of Switch & Go Dinos based on a popular animation series called Mini Force. However, this was offset by a decline in online sales.

[6] The NPD Group, Retail Tracking Service

TEL products revenue in Asia Pacific decreased by 15.8% to US$13.3 million, as lower sales in Japan and Hong Kong offset growth in Australia. In Japan, sales were lower as orders for residential phones from an existing customer declined. In Hong Kong, lower sales of IADs resulted in an overall decrease. VTech nonetheless launched a new generation of home gateway in Hong Kong that supports Wi-Fi 6 and has a changeable faceplate, which received good market feedback. In Australia, higher sales of baby monitors contributed to growth in the country, offsetting a decline in residential phones. During the period in Australia, VTech's RM7764HD 7-inch smart Wi-Fi baby monitor with a pan and tilt camera was named "Best Baby Monitor 2021 – Bronze Winner" in the "Bounty Baby Award" and an "Editor's Picks Product" in the "My Child Excellence Awards 2021" given by *My Child* magazine.

CMS revenue in Asia Pacific decreased by 10.1% to US$66.5 million, as lower sales of professional audio equipment offset increases in medical and health products. The professional audio category was affected by lower sales of DJ equipment, as production at the Group's factory in Malaysia was impacted by the COVID-19 Movement Control Order in the country. In contrast, sales of medical and health products rebounded. Orders for diagnostic ultrasound systems and hearing aids increased, as hospitals began to rebalance budgets away from COVID-19 related equipment purchases, while the resumption of business activities boosted orders for hearing aids.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 6.9% to US$12.1 million in the first six months of the financial year 2022. 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 1.7% to US$5.8 million. Higher sales in Latin America were offset by lower sales in the Middle East and Africa.

TEL products revenue in Other Regions decreased by 10.1% to US$6.2 million. The decline was attributable to sales decrease in the Middle East, which offset increases in Latin America and Africa.

CMS revenue in Other Regions was US$0.1 million in the first six months of the financial year 2022, as compared to US$0.2 million in the corresponding period of the prior financial year.

Outlook

All the Group's three businesses enjoy a robust order book amid strong demand for its products. As channel inventory improves and new products hit the shelves, both ELPs and TEL products are expected to see sales pick up in the second half. CMS revenue, however, is forecast to decline year-on-year due to global material shortages. Overall, the Group expects full year revenue to be lower than the previous financial year. The Group's gross profit margin for the full financial year 2022 is anticipated to improve over the first half, owing to the change in product mix. Despite the improvement over the first half, the full year gross profit margin is anticipated to be lower year-on-year.

As material supply and logistics issues look set to continue in the short run, VTech has put in place a number of measures to mitigate the negative impacts. The Group is re-engineering products to lower cost and accommodate alternative parts, signing long-term contracts with material suppliers to secure stable supply, sourcing alternative shipping carriers to secure containers, as well as increasing stocks of critical components. It is also starting production earlier to allow a longer time for shipment and transportation, in order to mitigate the impact of logistics delays.

ELPs revenue is forecast to show a slight increase for the full financial year 2022. Owing to the shipment delays, some orders were postponed to the second half. Sales in North America and Europe are now gaining momentum as the entire range of new products that reached shelves in September begins to sell through and overall channel inventory improves. New content for the award-winning Go! Go! Cory Carson animation series are being launched globally throughout the Autumn and Winter. Subscriptions to LeapFrog Academy™, however, have flattened out since schools reopened. In Asia Pacific, Australia is expecting sales to rebound as lockdowns are lifted and retail stores resume trading, but overall sales in mainland China are expected to show a full year decline.

Sales of TEL products in the second half are expected to improve as compared with the first six months, driven by new product launches. However, given the ongoing global material shortages, full year revenue is hard to predict. Nevertheless, the good performance of baby monitors and recovery in commercial phones are expected to continue. The baby monitor offering will expand as the full range of LeapFrog branded baby monitors with baby care app will be launched in North America in November 2021. VHush, a smart sleep training device with 100 bed-time stories and bluetooth feature, will hit the shelf in the fourth quarter of the financial year. A new feature-rich VTech work-from-home desktop cordless telephone will also be available in the US in January 2022. In addition, a work-from-anywhere series, whose features include an all-in-one projector and camera, a bluetooth conference speaker with audio recording function and professional headsets, will start to ship globally in the fourth quarter of the financial year. A new series of advanced Snom SIP (Session Initiation Protocol) desksets and a multi-cell SIP DECT (Digital Enhanced Cordless Telecommunications) mobility system will be rolled out in Europe in the last quarter of this financial year.

CMS revenue is expected to decline year-on-year. Despite a solid order book and a large backlog, the strong second half performance in the previous financial year will be difficult to repeat due to the global material shortages. As part of VTech's efforts to improve the situation, the Group is recommending alternative components to its customers and providing material suppliers high visibility on demand forecasts. The COVID-19 surge in Malaysia appears to have peaked, enabling the production of DJ equipment gradually to return to normal. Looking at new avenues for growth, the NPI (New Product Introduction) centre in Shenzhen has been successful in attracting new business from start-ups and is building a strong reputation in the Greater Bay Area of southern China. In April 2021, the Group completed the acquisition of a facility in Tecate, Mexico. While it continues to engage in manufacturing professional loudspeakers, once the COVID-19 situation stabilises, VTech will begin developing and expanding the EMS capability of the facility.

Demand for the Group's products remains strong and VTech colleagues are working diligently to minimise the impact of global supply chain disruptions. Given our strong financial position and continued success in product innovation, I am confident that VTech will successfully navigate the current complexities to emerge even stronger from this extraordinary time.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

	Six months ended 30 September 2021 US$ million	2020 US$ million	Change US$ million
Revenue	**1,114.8**	1,123.6	(8.8)
Gross profit	**304.9**	357.0	(52.1)
Gross profit margin	**27.4%**	31.8%	
Other net income	**0.4**	2.9	(2.5)
Total operating expenses	**(214.5)**	(217.3)	2.8
Total operating expenses as a percentage of revenue	**19.2%**	19.3%	
Operating profit	**90.8**	142.6	(51.8)
Operating profit margin	**8.1%**	12.7%	
Net finance expense	**(4.8)**	(3.4)	(1.4)
Share of results of an associate	**0.3**	0.1	0.2
Profit before taxation	**86.3**	139.3	(53.0)
Taxation	**(9.4)**	(15.7)	6.3
Effective tax rate	**10.9%**	11.3%	
Profit for the period and attributable to shareholders of the Company	**76.9**	123.6	(46.7)

Revenue

Group revenue for the six months ended 30 September 2021 decreased by 0.8% to US$1,114.8 million as compared with the same period of the previous financial year of US$1,123.6 million. The decrease in revenue was largely driven by the lower sales in Europe, Asia Pacific and Other Regions, which offset the increase in revenue in North America.

	Six months ended 30 September 2021		Six months ended 30 September 2020		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**497.9**	**44.6%**	492.9	43.9%	5.0	1.0%
Europe	**485.8**	**43.6%**	487.5	43.4%	(1.7)	(0.3%)
Asia Pacific	**119.0**	**10.7%**	130.2	11.6%	(11.2)	(8.6%)
Other Regions	**12.1**	**1.1%**	13.0	1.1%	(0.9)	(6.9%)
	1,114.8	**100.0%**	1,123.6	100.0%	(8.8)	(0.8%)

Gross Profit/Margin

Gross profit for the six months ended 30 September 2021 was US$304.9 million, a decrease of US$52.1 million or 14.6% compared with the same period last year. Gross profit margin for the period also decreased from 31.8% to 27.4%. It was mainly attributable to the higher material prices, especially electronic components and plastic materials, as well as a drastic increase in freight costs arising from container shortages. As for the direct labour costs and manufacturing overheads, they were also higher than same period last year, which were mainly due to the appreciation of Renminbi and the unstable supply of materials impacting the productivity gain. A change in product mix also contributed to the decline in gross profit margin.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2021 was US$90.8 million, a decrease of US$51.8 million or 36.3% compared with the same period of the previous financial year. Operating profit margin also decreased from 12.7% to 8.1%. The reduction in both operating profit and operating profit margin was mainly due to the decrease in gross profit and gross profit margin, which offset the decrease in total operating expenses. Operating profit for the six months ended 30 September 2021 also included government subsidies of US$0.2 million in response to COVID-19, as compared with an amount of US$4.0 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 gain of US$0.2 million on the Investment as compared with a fair value loss of US$1.1 million in the same period last year.

Total operating expenses decreased from US$217.3 million to US$214.5 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also dropped from 19.3% to 19.2%.

Selling and distribution costs decreased from US$135.2 million to US$134.7 million, a decrease of 0.4% compared with the same period last year. It was mainly attributable to the reduced spending on advertising and promotional activities. As a percentage of Group revenue, selling and distribution costs increased from 12.0% to 12.1%.

Administrative and other operating expenses decreased from US$40.4 million to US$37.2 million compared with the same period last year. It was mainly due to the decrease of employee related costs. Administrative and other operating expenses as a percentage of Group revenue also decreased from 3.6% to 3.3%.

During the first half of the financial year 2022, the research and development expenses were US$42.6 million, an increase of 2.2% 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 3.7% to 3.8%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2021 was US$76.9 million, a decrease of US$46.7 million or 37.8% compared with the same period last year. Net profit margin also decreased from 11.0% to 6.9%.

Basic earnings per share for the six months ended 30 September 2021 were US30.5 cents as compared to US49.0 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

As at 30 September 2021, the Group had a net cash balance of US$25.8 million including deposits and cash of US$52.2 million and a bank loan of US$26.4 million, a decrease of 81.2% as compared to US$137.1 million as of 30 September 2020. It was mainly due to the decrease in EBITDA, increase in working capital investment and higher dividend payment compared with the same period 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 2021 were US$599.4 million, increased from US$414.0 million as of 31 March 2021 with turnover days of 103 days. The higher stock level was mainly due to the seasonality of most of the Group's businesses. As compared with the corresponding period of last financial year, stocks increased by US$163.3 million or 37.4%, and turnover days also increased from 120 days to 141 days. The higher stock level was mainly attributable to the stock-up of raw materials in view of the unstable materials supply, as well as the deferrals of shipments to the customers due to shortage of containers from shipping carriers.

Trade debtors as of 30 September 2021 were US$507.9 million, increased from US$270.7 million as of 31 March 2021 with turnover days of 61 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$13.8 million or 2.6%, while turnover days increased from 60 days to 66 days. The increase in turnover days was mainly due to the change in customer mix.

Trade creditors as of 30 September 2021 were US$403.1 million, increased from US$236.7 million as of 31 March 2021 with turnover days of 79 days. As compared to the corresponding period of last financial year, trade creditors increased by US$83.8 million or 26.2%, and turnover days also increased from 82 days to 93 days. The increase in trade creditors was mainly due to the increase 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 2021, the Group invested US$18.1 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 2021, the Group had no material contingencies.

CORPORATE GOVERNANCE

The Board and the management of VTech 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 2021 are in line and consistent with those practices set out in the Company's 2021 Annual Report. Throughout the six months ended 30 September 2021, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive 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 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 2021 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. Details of the Group's risk management and internal control systems were set out in the "Risk Management and Sustainability Committee Report" on pages 71 to 75 of the Company's 2021 Annual Report. 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 2021 and up to the date of this announcement.

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 2021 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 system, and the internal audit function of the Group for the six months ended 30 September 2021 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 2021.

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 2021.

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 2021. 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 2021, 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 54,000 Company's shares at a consideration of approximately US$0.4 million.

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

Hong Kong, 15 November 2021

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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