VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2023

PERFORMANCE HIGHLIGHTS

- Group revenue decreased 2.1% to US$1,140.9 million
- Gross profit margin rose from 28.3% to 28.5%
- Profit attributable to shareholders of the Company increased 14.1% to US$93.6 million
- Interim dividend of US17.0 cents per ordinary share, unchanged
- Uncertain economic environment leading to a more conservative full year outlook
- Financial position remains strong

UNAUDITED INTERIM RESULTS

The directors (the "Directors") of VTech Holdings Limited ("VTech" or the "Company") announce the unaudited results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2023 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 2023

	Note	**Six months ended 30 September 2023 (Unaudited) US$ million**	Six months ended 30 September 2022 (Unaudited) US$ million	Year ended 31 March 2023 (Audited) US$ million
Revenue	3	**1,140.9**	1,164.8	2,241.7
Cost of sales		**(815.4)**	(835.4)	(1,608.0)
Gross profit		**325.5**	329.4	633.7
Other net (expenses) / income	4	**(0.4)**	1.2	1.7
Selling and distribution costs		**(133.1)**	(150.7)	(294.0)
Administrative and other operating expenses		**(39.7)**	(38.6)	(77.6)
Research and development expenses		**(42.0)**	(42.3)	(83.3)
Operating profit	3(b)	**110.3**	99.0	180.5
Net finance expense	4	**(3.0)**	(5.7)	(12.0)
Share of results of an associate		**-**	-	-
Profit before taxation	4	**107.3**	93.3	168.5
Taxation	5	**(13.7)**	(11.3)	(19.3)
Profit for the period / year and attributable to shareholders of the Company		**93.6**	82.0	149.2
Earnings per share (US cents)	7			
- Basic		**37.0**	32.5	59.1
- Diluted		**37.0**	32.5	59.1

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2023

	Six months ended 30 September		Year ended 31 March
	2023	2022	2023
	(Unaudited)	(Unaudited)	(Audited)
	US$ million	US$ million	US$ million
Profit for the period / year	**93.6**	82.0	149.2
Other comprehensive income for the period / year			
Item that will not be reclassified to profit or loss:			
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax	**-**	-	(2.0)
	-	-	(2.0)
Items that may be reclassified subsequently to profit or loss:			
Fair value gains / (losses) on hedging, net of deferred tax	**2.3**	(6.7)	0.4
Realisation on hedging reserve, net of deferred tax	**1.0**	(0.8)	(2.5)
Exchange translation differences	**(15.5)**	(41.5)	(20.5)
	(12.2)	(49.0)	(22.6)
Other comprehensive income for the period / year	**(12.2)**	(49.0)	(24.6)
Total comprehensive income for the period / year	**81.4**	33.0	124.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2023

	Note	30 September 2023 (Unaudited) US$ million	30 September 2022 (Unaudited) US$ million	31 March 2023 (Audited) US$ million
Non-current assets				
Tangible assets	8	**72.4**	77.7	74.9
Right-of-use assets		**148.8**	164.1	162.8
Intangible assets		**15.0**	15.7	15.3
Goodwill		**36.1**	36.1	36.1
Interest in an associate		**3.8**	3.8	3.8
Investments		**1.5**	1.4	1.9
Net assets on defined benefit scheme		**5.6**	7.4	5.6
Deferred tax assets		**10.4**	13.0	9.2
		293.6	319.2	309.6
Current assets				
Stocks		**432.0**	570.0	475.5
Debtors, deposits and prepayments	9	**516.8**	549.0	324.3
Taxation recoverable		**4.3**	5.8	10.5
Deposits and cash		**108.5**	103.3	198.5
		1,061.6	1,228.1	1,008.8
Current liabilities				
Creditors and accruals	10	**(537.5)**	(644.5)	(468.5)
Provisions for defective goods returns and other liabilities		**(25.2)**	(28.3)	(25.6)
Bank loans		**-**	(93.2)	-
Lease liabilities		**(17.0)**	(15.2)	(16.6)
Taxation payable		**(13.0)**	(13.4)	(6.5)
		(592.7)	(794.6)	(517.2)
Net current assets		**468.9**	433.5	491.6
Total assets less current liabilities		**762.5**	752.7	801.2
Non-current liabilities				
Deferred tax liabilities		**(3.8)**	(3.4)	(3.2)
Lease liabilities		**(149.0)**	(164.1)	(163.3)
		(152.8)	(167.5)	(166.5)
Net assets		**609.7**	585.2	634.7
Capital and reserves				
Share capital		**12.6**	12.6	12.6
Reserves		**597.1**	572.6	622.1
Total equity		**609.7**	585.2	634.7

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 2023 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 2023.

The Interim Financial Report has been prepared in accordance with the same accounting policies adopted in the 2023 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 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 2023 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 2023 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 May 2023.

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:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

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.

2. Changes in Accounting Policies *(continued)*

(a) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Government of the Hong Kong SAR (the "Government") gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will eventually abolish the statutory right of an employer to reduce its long service payment ("LSP") and severance payment payable to a Hong Kong employee by drawing on its mandatory contributions to the mandatory provident fund ("MPF") scheme (also known as the "offsetting mechanism"). The Government has subsequently announced that the Amendment Ordinance will come into effect from 1 May 2025 (the "Transition Date"). Separately, the Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP in respect of an employee's service from the Transition Date. However, where an employee's employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP in respect of the employee's service up to that date; in addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP.

The management has commenced the processes on implementing the change including additional data collection and impact assessment. However, the impact of the change is not reasonably estimable at the time this interim financial report is authorised for issue, as the Group has yet to fully complete its assessment of the impact of the HKICPA guidance.

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 is 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 2023

	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	**208.4**	**146.2**	**35.0**	**6.6**	**396.2**
Telecommunication Products	**103.9**	**43.7**	**11.6**	**4.7**	**163.9**
Contract Manufacturing Services	**177.1**	**278.8**	**124.9**	**-**	**580.8**
Total	**489.4**	**468.7**	**171.5**	**11.3**	**1,140.9**

3. Revenue and Segment Information *(continued)*

Six months ended 30 September 2022

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

(b) Segment Information

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

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

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

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

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

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

(i) Segment revenues and results

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

The measure used for reporting segment profit is operating profit.

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

(ii) Segment assets and liabilities

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

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

3. Revenue and Segment Information *(continued)*

(b) Segment Information *(continued)*

(ii) Segment assets and liabilities (continued)

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	
	2023 (Unaudited) US$ million	2022 (Unaudited) US$ million	**2023 (Unaudited) US$ million**	2022 (Unaudited) US$ million
North America	**489.4**	530.5	**48.5**	47.7
Europe	**468.7**	470.4	**40.9**	31.3
Asia Pacific	**171.5**	152.2	**18.4**	17.5
Other Regions	**11.3**	11.7	**2.5**	2.5
	1,140.9	1,164.8	**110.3**	99.0

	Reportable segment assets		Reportable segment liabilities	
	30 September 2023 (Unaudited) US$ million	31 March 2023 (Audited) US$ million	**30 September 2023 (Unaudited) US$ million**	31 March 2023 (Audited) US$ million
North America	**167.2**	163.8	**(104.5)**	(89.2)
Europe	**233.5**	108.4	**(51.1)**	(26.5)
Asia Pacific	**883.4**	969.4	**(573.1)**	(558.3)
Other Regions	**-**	-	**-**	-
	1,284.1	1,241.6	**(728.7)**	(674.0)

(iii) Reconciliations of reportable segment assets and liabilities

	30 September 2023 (Unaudited) US$ million	31 March 2023 (Audited) US$ million
Assets		
Reportable segment assets	**1,284.1**	1,241.6
Intangible assets	**15.0**	15.3
Goodwill	**36.1**	36.1
Interest in an associate	**3.8**	3.8
Investments	**1.5**	1.9
Taxation recoverable	**4.3**	10.5
Deferred tax assets	**10.4**	9.2
Consolidated total assets	**1,355.2**	1,318.4
Liabilities		
Reportable segment liabilities	**(728.7)**	(674.0)
Taxation payable	**(13.0)**	(6.5)
Deferred tax liabilities	**(3.8)**	(3.2)
Consolidated total liabilities	**(745.5)**	(683.7)

4. Profit before taxation

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

	Six months ended 30 September	
	2023	2022
	(Unaudited)	(Unaudited)
	US$ million	US$ million
Cost of inventories	**815.4**	835.4
Fair value loss on investments measured at fair value through profit or loss *(Notes (i) & (ii))*	**0.4**	0.8
Government subsidies *(Note (i))*	**-**	(2.0)
Depreciation of tangible assets	**16.8**	17.8
Depreciation of right-of-use assets	**10.7**	10.4
Amortisation of intangible assets	**0.3**	0.3
Write-down of inventories, net of reversals	**4.9**	10.8
Loss allowance for trade debtors	**0.5**	0.5
Reversal of loss allowance for trade debtors	**(0.5)**	(0.2)
Interest on lease liabilities *(Note (iii))*	**3.9**	4.0
Other interest expenses, net *(Note (iii))*	**(0.9)**	1.7
Net foreign exchange loss	**0.5**	1.3

Notes:

(i) Included in other net (expenses)/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"). A fair value loss of US$0.4 million (six months ended 30 September 2022: fair value loss of US$0.8 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	
	2023	2022
	(Unaudited)	(Unaudited)
	US$ million	US$ million
Current tax		
- Hong Kong	**8.7**	7.1
- Overseas	**6.4**	6.7
Over-provision in respect of prior years		
- Overseas	**(0.5)**	(0.6)
Deferred tax		
- Origination and reversal of temporary differences	**(0.9)**	(1.9)
	13.7	11.3
Current tax	**14.6**	13.2
Deferred tax	**(0.9)**	(1.9)
	13.7	11.3

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.

During the year ended 31 March 2023, the Inland Revenue Department of Hong Kong ("IRD") issued notices of additional assessment amounted to US$10.5 million for the year of assessment 2016/17 in connection with the tax treatment relating to contract processing arrangement in the PRC.

5. Taxation *(continued)*

Having reviewed the merits of the additional tax assessments and taking into account legal advice received, the directors of the Company have determined to strongly contest the additional assessments raised by the IRD. The Group has lodged objections against these additional tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover part of the additional tax demanded of US$5.8 million subject to the purchase of tax reserve certificates ("TRCs") and has agreed to hold over the remaining balance of US$4.7 million unconditionally. The purchase of TRCs do not prejudice the Group's tax position. No additional tax provision has been made during the six months ended 30 September 2023 in respect of the above additional tax assessments.

The Organisation for Economic Co-operation and Development ("OECD")/G20 Inclusive Framework on Base Erosion and Profit Shifting seeks to tackle tax avoidance, improve the coherence of international tax rules and ensure a more transparent tax environment. Global Anti-Base Erosion Model Rules (Pillar Two) ("BEPS 2.0") represents the first substantial overhaul of international tax rules in almost a century. It proposes mechanisms to ensure multi-national enterprises would pay a minimum level of tax with the rate of 15% on the income arising in each of the jurisdictions where they operate. The Group is closely monitoring the progress of the legislative process in each jurisdiction that the Group has operations. Based on currently available information, the implementation of BEPS 2.0 may have material adverse impact on the Group's effective tax rate and income tax expense in the future.

6. Dividends

(a) Dividend attributable to the period:

	Six months ended 30 September	
	2023	2022
	(Unaudited)	(Unaudited)
	US$ million	US$ million
Interim dividend of US17.0 cents (2022: US17.0 cents) per share declared	**43.0**	43.0

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 17 May 2023, the Directors proposed a final dividend of US42.0 cents (2022: US51.0 cents) per ordinary share for the year ended 31 March 2023, which was estimated to be US$106.1 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2023. The final dividend was approved by shareholders at the annual general meeting on 19 July 2023. The final dividend paid in respect of the year ended 31 March 2023 totaled US$106.2 million (2022: US$128.9 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$93.6 million (2022: US$82.0 million).

The calculation of basic earnings per share is based on the weighted average of 252.6 million (2022: 252.5 million) ordinary shares in issue during the period after adjusting for shares held for Share Award Scheme.

No material adjustment has been made to the basic earnings per share presented for the periods ended 30 September 2022 and 30 September 2023 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 2023, the Group acquired items of tangible assets with cost of US$18.5 million (six months ended 30 September 2022: US$16.1 million).

9. Debtors, Deposits and Prepayments

Debtors, deposits and prepayments of US$516.8 million (31 March 2023: US$324.3 million, 30 September 2022: US$549.0 million) include trade debtors of US$451.7 million (31 March 2023: US$277.2 million, 30 September 2022: US$487.4 million).

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

	30 September 2023 (Unaudited) US$ million	31 March 2023 (Audited) US$ million
0-30 days	**257.9**	155.8
31-60 days	**148.0**	98.6
61-90 days	**36.0**	15.8
>90 days	**9.8**	7.0
Total	**451.7**	277.2

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$537.5 million (31 March 2023: US$468.5 million, 30 September 2022: US$644.5 million) include trade creditors of US$273.2 million (31 March 2023: US$252.3 million, 30 September 2022: US$356.9 million).

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

	30 September 2023 (Unaudited) US$ million	31 March 2023 (Audited) US$ million
0-30 days	**82.1**	74.9
31-60 days	**75.1**	68.4
61-90 days	**62.2**	38.4
>90 days	**53.8**	70.6
Total	**273.2**	252.3

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 2023, payable on 20 December 2023 to the shareholders whose names appear on the register of members of the Company as at the close of business on 11 December 2023.

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 11 December 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 11 December 2023, 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 Friday, 8 December 2023.

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

CHAIRMAN'S STATEMENT

VTech reported an increase in profit in the first half of the financial year 2024 despite a slight decline in revenue, as operating expenses decreased and gross profit margin improved. There was a particularly strong performance by the Group's contract manufacturing services (CMS), which achieved record first-half revenue.

Results and Dividend

Group revenue for the six months ended 30 September 2023 decreased by 2.1% to US$1,140.9 million, from US$1,164.8 million in the corresponding period last year. Lower sales in North America, Europe and Other Regions offset higher sales in Asia Pacific.

Profit attributable to shareholders of the Company rose by 14.1% to US$93.6 million. The growth in profit was mainly attributable to lower operating expenses, as selling and distribution costs declined. This was supported by a modest improvement in gross profit margin.

Basic earnings per share increased by 13.8% to US37.0 cents, compared to US32.5 cents in the same period of the previous financial year.

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 2023.

Costs

The Group's gross profit margin in the first six months of the financial year 2024 was 28.5%, as compared with 28.3% in the same period of the previous financial year.

The improvement came as freight costs and inventory provisions fell. Direct labour costs and manufacturing overheads also declined, as a result of the depreciation of Renminbi against the US dollar, increased automation and a reduction in the factory workforce. These gains offset two negative factors. Cost of materials as a percentage of Group revenue rose despite lower materials prices, following a change in product mix. The depreciation of most currencies against the US dollar during the period also had a negative impact.

Segment Results

North America

Group revenue in North America decreased by 7.7% to US$489.4 million in the first six months of the financial year 2024. Higher sales of CMS were offset by lower sales of electronic learning products (ELPs) and telecommunication (TEL) products. North America remained VTech's largest market, accounting for 42.9% of Group revenue.

ELPs revenue in North America declined by 21.8% to US$208.4 million. The decrease was primarily driven by lower sell-through. The unfavourable year-on-year comparison is also due to the advancement of some customer shipments in the comparable period of last year to compensate for logistics delays. During the first nine months of the calendar year 2023, the Group maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada[1].

Sales of standalone and platform products decreased for both the VTech and LeapFrog brands. In standalone products, at VTech, growth in the Go! Go! Smart family of products, Switch & Go® Dinos and the Kidi line was insufficient to compensate for the declines in infant, toddler and preschool products, the KidiZoom® range, Marble Rush® and eco-friendly toys. At LeapFrog, higher sales of eco-friendly toys were offset by lower sales of infant, toddler and preschool products, LeapLand Adventures™ and Magic Adventures™ Microscope.

In platform products, lower sales of KidiZoom Smartwatches, Touch & Learn Activity Desk™ and KidiBuzz™ led to an overall decrease in sales of VTech platform products. Sales of LeapFrog platform products also declined, as those of children's educational tablets, interactive reading systems and Magic Adventures Globe all decreased. Subscription revenue from LeapFrog Academy™ was also lower.

Many innovative new products were launched during the period to strengthen the VTech standalone products ranges. Core learning products in the baby, infant, toddler and preschool categories saw a number of additions. The new Storytime with Sunny™ and Style & Glam On Unicorn™ bring a variety of learning activities to younger children, while introductions in the baby category included four new products, namely 6-in-1 Tunnel of Fun™, Snuggle & Discover Baby Whale™, Prop & Play Tummy Time Pillow™ and 2-in-1 Roll & Discover Roller Drum™. A completely revamped Go! Go! Smart range was introduced, offering new playsets and vehicles, as well as new products carrying the popular licensed character CoComelon. The Switch & Go Dinos line was boosted by new dinosaur models and more eggs that "hatch" into different dinosaurs.

At LeapFrog, the award-winning Magic Adventures line built on its success with the launch of Magic Adventures Telescope. Featuring 110-times zoom and more than 100 interactive videos and images, courtesy of NASA, it allows children to develop their STEAM (science, technology, engineering, the arts and mathematics) skills and make discoveries about the universe. LeapFrog's range of core learning products was strengthened with new role-play toys that introduce important early learning skills, including Build-a-Slice Pizza Cart™, Rainbow Tea for Two™ and Spin & Change Apple Shape Sorter™. The range of eco-friendly toys also expanded, with the addition of three new wooden toys that blend VTech learning technology with 100% FSC-certified wood.

During the first six months of the financial year 2024, the Group's ELPs again won numerous awards and recommendations from toy and parenting industry experts, key retailers and toy advisory boards in both the US and Canada. VTech Drill & Learn Workbench™ was named to Walmart's "2023 Top Toys List" in the US, while Storytime with Sunny was included in Walmart Canada's "Top Toy List for 2023". Switch & Go 3-in-1 Rescue Rex and LeapFrog Touch & Learn Wooden Activity Cube™ made *The Toy Insider's* 2023 "Hot 20" list, while Magic Adventures Telescope was included in its "STEM 10" list. Marble Rush Tip & Swirl Set™ was named to The Toy Association's "Summer Learning STEAM Toy" list.

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[1] Circana, 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 2023

TEL products revenue in North America fell by 16.1% to US$103.9 million, with declines for residential phones, commercial phones and other telecommunication products.

Sales of residential phones fell because the market contraction continued during the period. In addition, shelf space reduction at a major retailer in the US resulted in lower sales of AT&T branded phones. During the period, the Group maintained its leadership position in the residential phone market in the US[2].

In commercial phones, higher sales of hotel phones and Snom branded SIP (Session Initiation Protocol) phones were insufficient to offset declines for headsets and multi-line analogue phones. Sales of hotel phones rose as the market in the US continued its post-pandemic recovery. Demand for SIP phones increased after the Group successfully revitalised its go-to-market strategy for these products. Headsets, however, were affected by reduced orders from a customer, while sales of multi-line analogue phones decreased as the products made the transition to a new generation.

For other telecommunication products, sales of the Group's popular range of baby monitors held stable, although consumers were becoming more price sensitive. However, decreases in CareLine® residential phones and IADs (integrated access devices) resulted in an overall sales decline for other telecommunication products. VTech achieved an important breakthrough with the launch of the V-Care VC2105 Smart Baby Monitor in September 2023. Harnessing unique AI (artificial intelligence) capabilities, the over-the-crib Wi-Fi video monitor provides sleep analytics and real-time alerts, while allowing parents to watch over their baby at home on a 5-inch, HD (high-definition) display or remotely on their smartphone.

In the first six months of the financial year 2024, the Group maintained its number one position in the baby monitor market in the US and Canada[3]. During the same period, LeapFrog's LF2936FHD Baby Monitor was named "Touch Screen Monitor Product of the Year" in the "2023 Baby Innovation Awards".

CMS revenue in North America grew by 26.4% to US$177.1 million as improved materials supply enabled VTech to clear a backlog of orders from customers. Growth in professional audio equipment and IoT (Internet-of-Things) products offset declines in industrial products, solid-state lighting and communication products. As a result, VTech maintained its position as the world's number one contract manufacturer of professional audio equipment in the calendar year 2022[4].

Professional audio equipment saw higher sales of power amplifiers, professional loudspeakers and wireless microphones. In addition to the boost from the improved supply of materials, successful new product launches by a customer bolstered growth. In IoT products, a new customer was acquired in the field of smart home control systems, with sales starting to make a contribution during the period. Industrial products sales were down as customers faced over-inventory. Solid-state lighting sales declined as market demand softened. Sales of communication products also trended down, as the customer's products reached the end of their life cycle.

During the period, VTech CMS received a "20 Years Partnership Award" from a US customer in the industrial products category.

Europe

Group revenue in Europe decreased by 0.4% to US$468.7 million in the first six months of the financial year 2024. Higher sales from CMS were insufficient to offset lower sales of ELPs and TEL products. Europe remained VTech's second largest market, accounting for 41.1% of Group revenue.

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[2] MarketWise Consumer Insights, LLC, April 2023 to September 2023

[3] Circana/Retail Tracking Service, US and Canada, VTech and LeapFrog brands combined, based on dollars and units, April 2023 – September 2023 combined vs April 2022 – September 2022 combined

[4] *Music Trade Magazine*, September 2023

ELPs revenue in Europe fell by 8.2% to US$146.2 million. As in North America, the decrease was mainly attributable to lower shipments to customers of both standalone and platform products, following the advancement of shipments in the corresponding period of last year. Weaker sell-through and the depreciation of the euro and sterling against the US dollar during the period also contributed to the sales decline. Geographically, sales in France, the UK, Spain and the Netherlands decreased, offsetting growth in Germany. In the first nine months of the calendar year 2023, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries. The Group also regained its number one position as the largest infant and toddler toys manufacturer in Spain[5].

In standalone products, both VTech and LeapFrog products reported sales declines. For VTech, higher sales of preschool products, electronic learning aids, Marble Rush and eco-friendly products were offset by lower sales of infant and toddler products, KidiZoom cameras and the Kidi line. For LeapFrog, Magic Adventures Microscope and eco-friendly toys saw sales increases, while the launch of Magic Adventures Telescope added to growth. These gains, however, were offset by declines in infant, toddler and preschool products, as well as the LeapLand Adventures range.

In platform products, the VTech and LeapFrog brands both experienced a decline. The decrease at VTech was largely due to lower sales of KidiZoom Smartwatches, children's educational tablets and the KidiCom® range of products. Sales of Touch & Learn Activity Desk held stable. For LeapFrog, lower sales of interactive reading systems and Magic Adventures Globe resulted in the overall decrease.

In the first six months of the financial year 2024, VTech was given the prestigious "Trophée de l'innovation (Innovation Trophy) 2002-2023" by a key customer in France. In addition, four VTech ELPs won "Grand Prix du Jouet 2023" awards from France's *La Revue du Jouet* magazine. The award-winning products were KissKiss, Mon toutou bisous (Kosy the Kissing Puppy) in the "Best Interactive Plush Toy" category, Switch & Go Combo – Trio, le méga T-Rex SOS 3 en 1 (3-in-1 Rescue Rex) in the "Best Transformable Vehicle" category, KidiSecrets Mon casier MagicLocker in the "Best Electronic Game" category and Genius XL – Télescope Vidéo Interactif (Magic Adventures Telescope) in the "Best Scientific Toy" category.

Revenue from TEL products in Europe decreased by 5.6% to US$43.7 million. Residential phones, commercial phones and other telecommunication products all saw declines.

In residential phones, sales of VTech branded phones grew as the Group expanded into France and Italy, while increasing sales in the UK and Germany. This growth was, however, offset by lower shipments to ODM (original design manufacturing) customers, as they experienced over-inventory during the period.

The decline in commercial phones was mainly due to lower sales of hotel phones and headsets. Sales of Snom branded SIP phones held stable. The more advanced D8 SIP desksets have been well-received by customers because of their HD LCD (liquid crystal) display, attractive aesthetics and superior quality, despite their higher price point. Meanwhile, the D7 series, which is positioned as a value product, was expanded further to meet market demand. As a result, the Snom brand now offers a complete range of SIP products from entry to premium level.

In contrast, sales of hotel phones declined, because keen competition made growth challenging despite a pick-up in the market as travel gradually returned to pre-pandemic levels. Distribution of hotel phones in the region was, however, strengthened by the addition of Snom Technology GmbH (Snom) as a distribution channel in continental Europe. Sales of headsets posted a decline as an ODM customer reduced orders.

For other telecommunication products, growth in baby monitors was insufficient to compensate for a drop in CareLine residential phones, CAT-iq (Cordless Advanced Technology—internet and quality) handsets and IADs.

[5] Circana, Retail Tracking Service, January 2023 – September 2023

During the period, the Group's baby monitors and sleep trainers both gained recognition in the UK. For the VTech brand, there were awards for the RM7766HD and VM5463 baby monitors, as well as the BC8313 V-Hush™ Pro Soothing Sleep Trainer, in the "UKMUMS.tv Pre-school and Baby Awards 2023". At LeapFrog, the LF920HD and LF2936FHD baby monitors also gained UKMUMS.tv awards, while the LF815HD and LF1911 baby monitors picked up silver and gold respectively in the "Dadsnet Product Awards 2023".

CMS revenue in Europe rose by 5.3% to US$278.8 million, mainly driven by the improvement in the supply of materials. Higher sales of professional audio equipment, smart energy storage systems, communication products and medical and health products compensated for declines in hearables, IoT products and automotive products. Sales of home appliances remained stable.

Professional audio equipment saw growth in audio mixers as market demand continued to recover, offsetting a decline for home audio interface products. Smart energy storage systems benefited from production ramping up as materials supply improved, while communication products sales increased as the customer launched new Wi-Fi routers. Growth in medical and health products was driven by higher sales of hearing aids, as business activities continued to accelerate following the end of the pandemic. Sales of hearables declined as market demand returned to pre-pandemic levels. IoT products saw a decrease as the smart meters customer returned to a more normal sales pattern following earlier market share gains, while sales of internet connected thermostat and air-conditioning controls were little changed. Automotive products sales fell as the customer for EV (electric vehicle) chargers lost market share owing to increased competition and a delayed product launch. The Group added a new customer in the professional audio equipment category of USB streaming microphones for the professional gaming market, with hardware and software designed in-house by VTech CMS.

During the period, VTech CMS was named "Supplier of the Year" by an IoT product customer in Germany and won an "Outstanding Supplier Award" from a professional audio customer in the UK.

Asia Pacific

Group revenue in Asia Pacific increased by 12.7% to US$171.5 million in the first six months of the financial year 2024, as higher sales of CMS offset lower sales of ELPs and TEL products. The region represented 15.0% of Group revenue.

Revenue from ELPs in Asia Pacific decreased by 16.5% to US$35.0 million, as higher sales in mainland China were offset by declines in Australia and Japan. In mainland China, both online and offline channels posted sales increases. This was mainly due to the resumption of activities after the lifting of COVID restrictions. The resulting recovery in sales of core learning products drove the growth. In June, Magic Adventures Microscope was shortlisted for the Innovation Design Awards in the 2023 CBME (Children Baby Maternity Expo). Sales in Australia decreased, with both VTech and LeapFrog branded products reporting declines. This was mainly due to a weakening economy resulting from higher inflation and interest rates. During the first nine months of the calendar year 2023, VTech remained the number one manufacturer in the infant and toddler toys category[6] in the country. In Japan, sales declined owing to lower sell-through of the jointly developed smartwatches and a decrease in sales to a major toy retailer.

TEL products revenue in Asia Pacific declined by 16.5% to US$11.6 million, as lower sales in Japan and Hong Kong offset higher sales in Australia. In Japan, sales of residential phones were down as an ODM customer reduced orders due to over-inventory. In Hong Kong, lower sales of IADs and residential phones resulted in an overall sales decrease. In Australia, however, continued growth in baby monitors offset a sales decline for residential phones. In August, the Group's baby monitors picked up two "Bounty Baby Awards 2023". The VTech BM775HD Baby Monitor was named "Bronze Winner" in the "Best Baby Monitor" category, while LeapFrog's LF925HD Baby Monitor made the "Editors' Top 5 Picks".

CMS revenue in Asia Pacific increased by 29.6% to US$124.9 million, as growth in professional audio equipment offset a decline in communication products. Sales of medical and health products were stable.

[6] Circana, Retail Tracking Service, January 2023 – September 2023

Sales of professional audio equipment surged as orders for DJ equipment grew significantly owing to improved materials supply. VTech also benefited from market share gains and more new product launches by the customer. In medical and health products, orders of diagnostic ultrasound systems held stable. Lower communication products sales were the result of a customer losing market share due to increased competition, leading to a decrease in orders for marine radios.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 3.4% to US$11.3 million in the first six months of the financial year 2024. The decrease came as higher sales of ELPs were offset by lower sales of TEL products. Other Regions accounted for 1.0% of Group revenue.

ELPs revenue in Other Regions increased by 3.1% to US$6.6 million. Higher sales in Latin America and the Middle East offset lower sales in Africa.

TEL products revenue in Other Regions declined by 11.3% to US$4.7 million. The decline was attributable to lower sales in Latin America and the Middle East, which offset growth in Africa.

CMS revenue in Other Regions was immaterial in the first six months of the financial year 2024.

Outlook

The wars in Ukraine and the Middle East, as well as the uncertainty in the global economy, are weighing on world markets. Energy costs are volatile and in the US and Europe, interest rates are forecast to remain high. Consumer spending and business investment are consequently being cut back. In markets outside the US, the strong US dollar continues to pressure retailers. More positively, the pressure on raw materials and critical components supplies, together with freight costs, has eased considerably in recent months.

In light of the less favourable economic environment, Group revenue for the full financial year is now expected to show a slight decline. Profitability, however, remains on track to show improvement for the full year, as materials prices and freight charges trend down year-on-year. To bolster profitability further, the Group will continue to exert strict control on inventory and operating expenses. Despite this, VTech will commit resources to advertising and promotions and exercise tight management to ensure good sell-through of products in the upcoming holiday seasons.

For ELPs, full year revenue is now expected to post a decline, even though second half sales will show improvement over the first half. Faced with higher living costs, price-sensitive consumers are delaying holiday season purchases in search of bargains. The ELPs business will, however, benefit from the re-organisation of the US operations that is now complete. The new leadership team that has been put in place will be able to monitor sell-through closely and react swiftly with appropriate advertising and promotions. This will maximise sales and ensure that VTech emerges from the holiday season with a healthy level of inventory.

As ever, an exciting array of new standalone and platform products will help drive sales, adding to the recent product launches already mentioned. Magic Adventures Telescope recently garnered one of the most prestigious consumer product awards, being named as one of *Time* magazine's "Best Inventions of 2023". The product has also been awarded "Best Toy of the Year 2023" by the Spanish Association of Toy Manufacturers and named one of the Belgian Toy Federation's "Toys and Games of the Year".

The second half will see introduction of the new KidiZoom Smartwatch MAX, the latest generation of this enduringly popular product range. It features a sleek and stylish design, with a landscape display that is the ideal fit for a child's wrist. Momentum will be further strengthened by the innovative Turbo Edge Riders™, a brand-new line of racing track sets that combines the excitement of car racing with creativity. Children can build and race through a stunt-filled course right out of the box and then expand it with repurposed shipping boxes and everyday objects to create even more epic courses.

Sales of TEL products are now forecast to be lower for the full financial year 2024. Residential phones sales in North America are anticipated to decrease for the full financial year, but in Europe the Group will benefit from the expansion of VTech branded products into new markets. In commercial phones, new product launches and the addition of Snom as a distribution channel in Europe will drive growth in hotel phones. Sales of Snom SIP phones are expected to be boosted by the new M500 series, a DECT (digital enhanced cordless telecommunications) based system that delivers superior mobility for medium-sized offices and businesses. For other telecommunication products, baby monitors will be the key driver. The new baby monitor with AI features is already on shelves in North America and VTech is increasing marketing efforts to maximise its exposure. The Group also plans to expand this range with different products offering additional features and to strengthen its go-to-market strategy.

CMS outperformed the global EMS (electronic manufacturing services) market in the first half and hence revenue for the full financial year is now expected to increase. Sales in the second half are, however, anticipated to slow down as the global economy is weakening. Customers are cautious about placing orders and are managing inventory tightly. Despite this, continued good performance is expected from professional audio equipment, hearing aids and smart energy storage systems. Orders from the new customer for smart home control systems will continue to ramp up.

The rising geo-political uncertainties present significant challenges to global economic growth and hence to the sales outlook. VTech is in a strong position, however, with a solid balance sheet and reputable brands rooted in product innovation and operational excellence. We are therefore confident of successfully managing through these difficult times.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

	Six months ended 30 September		
	2023	2022	Change
	US$ million	US$ million	US$ million
Revenue	**1,140.9**	1,164.8	(23.9)
Gross profit	**325.5**	329.4	(3.9)
Gross profit margin	**28.5%**	28.3%	
Other net (expenses)/income	**(0.4)**	1.2	(1.6)
Total operating expenses	**(214.8)**	(231.6)	16.8
Total operating expenses as a percentage of revenue	**18.8%**	19.9%	
Operating profit	**110.3**	99.0	11.3
Operating profit margin	**9.7%**	8.5%	
Net finance expense	**(3.0)**	(5.7)	2.7
Share of results of an associate	**-**	-	-
Profit before taxation	**107.3**	93.3	14.0
Taxation	**(13.7)**	(11.3)	(2.4)
Effective tax rate	**12.8%**	12.1%	
Profit for the period and attributable to shareholders of the Company	**93.6**	82.0	11.6

Revenue

Group revenue for the six months ended 30 September 2023 decreased by 2.1% to US$1,140.9 million as compared with the same period of the previous financial year of US$1,164.8 million. The decrease in revenue was largely driven by the decrease in revenue in North America, Europe and Other Regions, which offset the higher sales in Asia Pacific.

	Six months ended 30 September 2023		Six months ended 30 September 2022		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**489.4**	**42.9%**	530.5	45.5%	(41.1)	(7.7%)
Europe	**468.7**	**41.1%**	470.4	40.4%	(1.7)	(0.4%)
Asia Pacific	**171.5**	**15.0%**	152.2	13.1%	19.3	12.7%
Other Regions	**11.3**	**1.0%**	11.7	1.0%	(0.4)	(3.4%)
	1,140.9	**100.0%**	1,164.8	100.0%	(23.9)	(2.1%)

Gross Profit/Margin

Gross profit for the six months ended 30 September 2023 was US$325.5 million, a decrease of US$3.9 million or 1.2% compared with the same period last year. Gross profit margin for the period increased from 28.3% to 28.5%. It was mainly due to the decreases in freight charges and inventory provisions, as well as the lower direct labour costs and manufacturing overheads arising from the depreciation of Renminbi against the US dollar and reduction in number of workers compared with the same period last year. These offset the negative impacts of higher cost of materials as percentage of Group revenue resulting from the change in the product mix despite the decline in material prices, as well as the depreciation of foreign currencies against the US dollar.

Operating Profit/Margin

Operating profit for the six months ended 30 September 2023 was US$110.3 million, an increase of US$11.3 million or 11.4% compared with the same period of the previous financial year. Operating profit margin also increased from 8.5% to 9.7%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit margin. The Group invests in an investment holding company which has a shareholding in a listed entity that designs and distributes integrated circuit products (the "Investment"). Other net income included a fair value loss of US$0.4 million on the Investment, as compared with a fair value loss of US$0.8 million in the same period last year. Operating profit for the six months ended 30 September 2022 also included government subsidies of US$2.0 million in response to COVID-19.

Total operating expenses decreased from US$231.6 million to US$214.8 million compared with the same period last year. Total operating expenses as a percentage of Group revenue also decreased from 19.9% to 18.8%.

Selling and distribution costs decreased from US$150.7 million to US$133.1 million, a decrease of 11.7% compared with the same period last year. It was mainly attributable to the decreased spending on advertising and promotional activities and the reduction of distribution costs. As a percentage of Group revenue, selling and distribution costs decreased from 12.9% to 11.7%.

Administrative and other operating expenses increased from US$38.6 million to US$39.7 million, an increase of 2.8% compared with the same period last year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.3% to 3.5%.

During the first half of the financial year 2024, the research and development expenses were US$42.0 million, a decrease of 0.7% compared with the same period last year. It was mainly attributable to lower project expenses and employee related costs. Research and development expenses as a percentage of Group revenue also increased from 3.6% to 3.7%.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the six months ended 30 September 2023 was US$93.6 million, an increase of US$11.6 million or 14.1% compared with the same period last year. Net profit margin also increased from 7.0% to 8.2%.

Basic earnings per share for the six months ended 30 September 2023 were US37.0 cents as compared to US32.5 cents in the first half of the previous financial year.

Dividends

Since the end of the relevant financial period, the directors of the Company (the "Directors") have declared an interim dividend of US17.0 cents per share, which is estimated to be US$43.0 million.

Liquidity and Financial Resources

The Group's financial resources remain strong and was debt-free. As at 30 September 2023, the Group had deposits and cash of US$108.5 million, an increase of US$98.4 million as compared with a net cash balance of US$10.1 million, including deposits and cash of US$103.3 million and bank loans of US$93.2 million, as of 30 September 2022. The increase in net cash balance was mainly driven by the higher net cash generated from operating activities. In addition, the negative impact of unfavourable foreign currency exchange movements on the Group's net assets as a result of the depreciation of foreign currencies against United States Dollar was lower than the same period last year. Furthermore, lower dividend payment compared with the same period of last year also contributed to the increase in net cash balance. The Group has adequate liquidity to meet its current and future working capital requirements.

Working Capital

Stocks as of 30 September 2023 were US$432.0 million, decreased from US$475.5 million as of 31 March 2023 with turnover days of 128 days. The lower stock level was mainly due to decrease in raw materials in view of the more stable supply of critical components. As compared with the corresponding period of last financial year, stocks decreased by US$138.0 million or 24.2%, and turnover days also decreased from 140 days to 120 days. The lower stock level was mainly due to the decrease in raw materials and finished goods as the supply constraints had eased compared with the same period last year.

Trade debtors as of 30 September 2023 were US$451.7 million, increased from US$277.2 million as of 31 March 2023 with turnover days of 59 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$35.7 million or 7.3%, and turnover days also decreased from 62 days to 60 days.

Trade creditors as of 30 September 2023 were US$273.2 million, increased from US$252.3 million as of 31 March 2023 with turnover days of 102 days. As compared to the corresponding period of last financial year, trade creditors decreased by US$83.7 million or 23.5%, and turnover days also decreased from 108 days to 87 days. The decrease in trade creditors was mainly due to the decrease in purchase of raw materials compared with the same period last year.

Treasury Policies

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

Capital Expenditure and Contingencies For the six months ended 30 September 2023, the Group invested US$18.5 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 2023, the Group had no material contingencies.

CORPORATE GOVERNANCE

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

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

Corporate Governance Practices

The corporate governance rules applicable to the Company are the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules. Throughout the six months ended 30 September 2023, the Company complied with all the code provisions of the Code, except for the deviation from code provision C.2.1 of Part 2 of the Code.

Under code provision C.2.1 of Part 2 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 more than half of the Board members are Independent Non-executive Directors, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. Furthermore, as Dr. Allan WONG Chi Yun is the founder of the Group and has substantial professional experience in the industry, the Board believes that the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the sustainable development of the Group and the long-term interests of the shareholders.

Details of the corporate governance practices adopted by the Company are set out in the Company's 2023 Annual Report.

VTech is also committed to following the Environmental, Social and Governance ("ESG") Reporting Guide set out in Appendix 27 to the Listing Rules. Details of VTech's ESG performance were set out in the Company's 2023 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 its business for the long term. The Risk Management and Sustainability Committee continued to review the Group's risk management and internal control systems, and monitor the sustainability performance progress during the six months ended 30 September 2023 and up to the date of this announcement. Details of the Group's risk management and internal control systems were set out in the "Risk Management and Sustainability Committee Report" on pages 63 to 69 of the Company's 2023 Annual Report.

Furthermore, the Data Security Governance Board reviewed and monitored the implementation and execution of the Data Security Policy and practices of the Group to ensure compliance with the latest privacy and data protection regulations in the various jurisdictions in which the Group operated during the six months ended 30 September 2023 and up to the date of this announcement. It also reviewed the implementation progress of the data breach preventive measures, system technology enhancement and staff trainings for mitigating the Group's exposure to cybersecurity risks and meeting the industry standard.

Based on the information received from the management (including the Risk Management and Sustainability Committee and the Data Security Governance Board), the external auditor and the Internal Audit Department, the Audit Committee is satisfied that the overall financial and operational controls, risk management and internal control systems, and the internal audit function of the Group for the six months ended 30 September 2023 and up to the date of this announcement are 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 the Directors. The Model Code is also extended to apply to specified employees including the senior management of the Group. After having made specific enquiries, all Directors and specified employees confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the six months ended 30 September 2023.

REVIEW OF INTERIM RESULTS

The Audit Committee reviewed and discussed with the management and the external auditor the Group's unaudited Interim Financial Report and unaudited interim results for the six months ended 30 September 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the six months ended 30 September 2023.

During the six months ended 30 September 2023, the trustee of the Share Award Scheme, pursuant to the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 322,900 shares of the Company for an aggregate consideration of approximately US$2.0 million.

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

Hong Kong, 15 November 2023

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 GAN Jie, Professor KO Ping Keung, Dr. Patrick WANG Shui Chung and Mr. WONG Kai Man.

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