VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2019

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 1.5% to US$2,161.9 million
- Profit attributable to shareholders of the Company decreased by 17.0% to US$171.3 million
- Final dividend of US50.0 cents per ordinary share, resulting in a full-year dividend of US67.0 cents per ordinary share, a decrease of 16.3% year-on-year
- Gross margin declined from 33.0% to 29.4%
- Restructuring to turn around TEL products business

The directors (the "Directors") of VTech Holdings Limited (the "Company") announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2019 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2019

	Note	**2019** **US$ million**	2018 US$ million
Revenue	2	**2,161.9**	2,130.1
Cost of sales		**(1,525.5)**	(1,428.1)
Gross profit		**636.4**	702.0
Other income	3	**5.9**	4.2
Selling and distribution costs		**(294.0)**	(318.9)
Administrative and other operating expenses		**(77.9)**	(78.4)
Research and development expenses		**(77.2)**	(77.6)
Operating profit	2&3	**193.2**	231.3
Net finance expense		**(0.9)**	(0.3)
Profit before taxation		**192.3**	231.0
Taxation	4	**(21.0)**	(24.7)
Profit for the year and attributable to shareholders of the Company		**171.3**	206.3
Earnings per share (US cents)	6		
- Basic		**68.2**	82.1
- Diluted		**68.1**	82.1

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	2019 **US$ million**	2018 US$ million
Profit for the year	**171.3**	206.3
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax	**0.2**	5.0
	0.2	5.0
Items that may be reclassified subsequently to profit or loss:		
Fair value gains / (losses) on hedging, net of deferred tax	**5.9**	(4.5)
Realisation of hedging reserve, net of deferred tax	**3.5**	(4.7)
Exchange translation differences	**(20.4)**	32.7
	(11.0)	23.5
Other comprehensive income for the year	**(10.8)**	28.5
Total comprehensive income for the year	**160.5**	234.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Note	**2019 US$ million**	2018 US$ million
Non-current assets			
Tangible assets		**84.3**	76.2
Leasehold land payments		**4.5**	4.8
Intangible assets		**18.6**	19.6
Investments		**5.4**	5.4
Goodwill		**36.1**	31.1
Net assets on defined benefit scheme		**2.6**	2.7
Deferred tax assets		**5.8**	6.3
		157.3	146.1
Current assets			
Stocks		**369.9**	349.9
Debtors, deposits and prepayments	7	**319.1**	348.0
Taxation recoverable		**3.6**	1.6
Deposits and cash		**237.0**	254.4
		929.6	953.9
Non-current asset held for sale		**-**	2.7
		929.6	956.6
Current liabilities			
Creditors and accruals	8	**(443.9)**	(416.7)
Provisions for defective goods returns and other liabilities		**(24.9)**	(28.4)
Taxation payable		**(7.7)**	(8.0)
		(476.5)	(453.1)
Net current assets		**453.1**	503.5
Total assets less current liabilities		**610.4**	649.6
Non-current liability			
Deferred tax liabilities		**(3.4)**	(3.0)
		(3.4)	(3.0)
Net assets		**607.0**	646.6
Capital and reserves			
Share capital		**12.6**	12.6
Reserves		**594.4**	634.0
Total equity		**607.0**	646.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

		Attributable to shareholders of the Company						
	Note	Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Exchange reserve US$ million	Hedging reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 2017		12.5	148.8	(0.2)	(33.8)	5.2	452.2	584.7
Changes in equity for the year ended 31 March 2018								
Comprehensive income								
Profit for the year		-	-	-	-	-	206.3	206.3
Other comprehensive income								
Fair value losses on hedging, net of deferred tax		-	-	-	-	(4.5)	-	(4.5)
Realisation of hedging reserve, net of deferred tax		-	-	-	-	(4.7)	-	(4.7)
Exchange translation differences		-	-	-	32.7	-	-	32.7
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax		-	-	-	-	-	5.0	5.0
Other comprehensive income for the year		-	-	-	32.7	(9.2)	5.0	28.5
Total comprehensive income for the year		-	-	-	32.7	(9.2)	211.3	234.8
Final dividend in respect of the previous year		-	-	-	-	-	(133.2)	(133.2)
Interim dividend in respect of the current year	5	-	-	-	-	-	(42.8)	(42.8)
Shares issued under Share Purchase Scheme		0.1	3.0	(3.1)	-	-	-	-
Shares purchased for Share Purchase Scheme		-	-	(4.0)	-	-	-	(4.0)
Vesting of shares of Share Purchase Scheme		-	-	7.1	-	-	-	7.1
At 31 March 2018 / 1 April 2018		12.6	151.8	(0.2)	(1.1)	(4.0)	487.5	646.6
Changes in equity for the year ended 31 March 2019								
Comprehensive income								
Profit for the year		-	-	-	-	-	171.3	171.3
Other comprehensive income								
Fair value gains on hedging, net of deferred tax		-	-	-	-	5.9	-	5.9
Realisation of hedging reserve, net of deferred tax		-	-	-	-	3.5	-	3.5
Exchange translation differences		-	-	-	(20.4)	-	-	(20.4)
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax		-	-	-	-	-	0.2	0.2
Other comprehensive income for the year		-	-	-	(20.4)	9.4	0.2	(10.8)
Total comprehensive income for the year		-	-	-	(20.4)	9.4	171.5	160.5
Final dividend in respect of the previous year	5	-	-	-	-	-	(158.5)	(158.5)
Interim dividend in respect of the current year	5	-	-	-	-	-	(42.8)	(42.8)
Shares issued under Share Purchase Scheme		-	2.5	(2.5)	-	-	-	-
Shares purchased for Share Purchase Scheme		-	-	(3.4)	-	-	-	(3.4)
Vesting of shares of Share Purchase Scheme		-	-	4.6	-	-	-	4.6
At 31 March 2019		12.6	154.3	(1.5)	(21.5)	5.4	457.7	607.0

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2019

	Note	**2019 US$ million**	2018 US$ million
Operating activities			
Operating profit		**193.2**	231.3
Depreciation of tangible assets	3	**36.9**	35.0
Amortisation of leasehold land payments	3	**0.1**	0.2
Amortisation of intangible assets	3	**1.0**	0.9
Gain on disposal of an investment	3	**-**	(4.2)
(Gain) / loss on disposal of tangible assets and non-current asset held for sale	3	**(5.9)**	0.5
Share-based payment expenses		**4.6**	7.1
Increase in stocks		**(17.4)**	(25.0)
Decrease / (increase) in debtors, deposits and prepayments		**30.9**	(24.0)
Increase / (decrease) in creditors and accruals		**33.3**	(14.0)
Decrease in provisions for defective goods returns and other liabilities		**(3.5)**	(6.5)
Decrease in net assets on defined benefit scheme		**0.2**	0.3
Cash generated from operations		**273.4**	201.6
Interest paid		**(0.9)**	(0.3)
Taxes paid		**(23.2)**	(25.6)
Net cash generated from operating activities		**249.3**	175.7
Investing activities			
Purchase of tangible assets		**(37.3)**	(37.6)
Proceeds from disposal of tangible assets and non-current asset held for sale		**9.2**	0.2
Proceeds from disposal of an investment		**-**	4.3
Payment for acquisition of an investment		**-**	(2.4)
Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)		**(17.8)**	-
Net cash used in investing activities		**(45.9)**	(35.5)
Financing activities			
Repayment of bank loans arising from acquisition of Snom		**-**	(1.7)
Payment for shares acquired for Share Purchase Scheme		**(3.4)**	(4.0)
Dividends paid	5	**(201.3)**	(176.0)
Net cash used in financing activities		**(204.7)**	(181.7)
Effect of exchange rate changes		**(16.1)**	27.1
Decrease in cash and cash equivalents		**(17.4)**	(14.4)
Cash and cash equivalents at 1 April		**254.4**	268.8
Cash and cash equivalents at 31 March		**237.0**	254.4

NOTES

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related Interpretations promulgated by the International Accounting Standards Board ("IASB").

These financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

The IASB has issued a number of new IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

IFRS 9, *Financial instruments*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

(i) Classification of financial assets and financial liabilities

IFRS 9 categorises financial assets into three principal classification categories: measured at (a) amortised cost, (b) fair value through other comprehensive income ("FVOCI") and (c) fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same.

The adoption of IFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets and financial liabilities as at 1 April 2018.

1. Basis of preparation *(continued)*

IFRS 9, *Financial instruments* *(continued)*

(ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "Expected Credit Loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including deposits and cash, debtors and deposits).

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to IAS 39 to be applied, and the assessment is always forward-looking. The adoption of IFRS 9 has not had a significant impact on the Group's financial statements in this regard.

The adoption of IFRS 9 does not have any material impact on the financial position and the financial result of the Group.

IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 18 and 11. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 April 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue from sale of goods was recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

1. Basis of preparation *(continued)*

IFRS 15, *Revenue from contracts with customers* *(continued)*

(i) Timing of revenue recognition (continued)

Under IFRS 15, revenue is recognised when the customer obtains control of the promised goods or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue.

(ii) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred. There has been no impact on the Group as a result of this change in policy.

(iii) Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances received in advance relating to contracts in progress were presented in the statement of financial position under "creditors and accruals" and presented in the note to the financial statements for "creditors and accruals" under "other creditors and accruals".

To reflect these changes in presentation, the Group has made an adjustment to reclassify the "advances received" amounting to US$12.4 million, which was previously included in "other creditors and accruals" to "contract liabilities" at 1 April 2018, as a result of the adoption of IFRS 15.

1. Basis of preparation *(continued)*

IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

2. 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:

Year ended 31 March 2019

	North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Other Regions US$ million**	**Total US$ million**
Electronic Learning Products	**476.6**	**343.5**	**81.2**	**13.0**	**914.3**
Telecommunication Products	**263.4**	**119.7**	**35.4**	**21.7**	**440.2**
Contract Manufacturing Services	**254.5**	**419.7**	**132.0**	**1.2**	**807.4**
Total	**994.5**	**882.9**	**248.6**	**35.9**	**2,161.9**

Year ended 31 March 2018

	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions US$ million	Total US$ million
Electronic Learning Products	458.2	363.2	71.9	14.0	907.3
Telecommunication Products	327.0	132.7	44.2	27.8	531.7
Contract Manufacturing Services	255.8	353.2	81.0	1.1	691.1
Total	1,041.0	849.1	197.1	42.9	2,130.1

The Group’s customer base is diversified and include only one (2018: one) customer with whom transaction have exceeded 10% of the Group’s revenue. For the year ended 31 March 2019, approximately 12% (2018: 12%) of the Group’s revenue is derived from a single external customer. Such revenue is attributable to the North America segment.

2. Revenue and Segment Information *(continued)*

(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 telecommunication products, electronic learning 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 primarily in the People's Republic of China under the Asia Pacific 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 segment 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 and investments.

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

2. Revenue and Segment Information *(continued)*

(b) Segment Information *(continued)*

Year ended 31 March 2019

	North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Other Regions US$ million**	**Total US$ million**
Reportable segment revenue	**994.5**	**882.9**	**248.6**	**35.9**	**2,161.9**
Reportable segment profit	**93.2**	**63.3**	**31.0**	**5.7**	**193.2**
Depreciation and amortisation	**0.8**	**1.1**	**36.1**	**-**	**38.0**
Reportable segment assets	**145.1**	**122.3**	**750.0**	**-**	**1,017.4**
Reportable segment liabilities	**(72.3)**	**(29.5)**	**(366.9)**	**(0.1)**	**(468.8)**

Year ended 31 March 2018

	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions US$ million	Total US$ million
Reportable segment revenue	1,041.0	849.1	197.1	42.9	2,130.1
Reportable segment profit	119.1	65.4	39.5	7.3	231.3
Depreciation and amortisation	1.3	1.1	33.7	-	36.1
Reportable segment assets	161.5	133.6	743.6	-	1,038.7
Reportable segment liabilities	(71.9)	(32.2)	(340.9)	(0.1)	(445.1)

(c) Reconciliations of reportable segment assets and liabilities

	2019 US$ million	2018 US$ million
Assets		
Reportable segment assets	**1,017.4**	1,038.7
Intangible assets	**18.6**	19.6
Investments	**5.4**	5.4
Goodwill	**36.1**	31.1
Taxation recoverable	**3.6**	1.6
Deferred tax assets	**5.8**	6.3
Consolidated total assets	**1,086.9**	1,102.7
Liabilities		
Reportable segment liabilities	**(468.8)**	(445.1)
Taxation payable	**(7.7)**	(8.0)
Deferred tax liabilities	**(3.4)**	(3.0)
Consolidated total liabilities	**(479.9)**	(456.1)

3. Operating profit

Operating profit is arrived at after charging / (crediting) the following:

	2019 **US$ million**	2018 US$ million
Gain on disposal of an investment *(Note (i))*	**-**	(4.2)
Depreciation of tangible assets	**36.9**	35.0
Amortisation of leasehold land payments	**0.1**	0.2
Amortisation of intangible assets	**1.0**	0.9
(Gain) / loss on disposal of tangible assets and non-current asset held for sale *(Note (i))*	**(5.9)**	0.5
Net foreign exchange (gain) / loss	**(0.3)**	0.1
Net loss / (gain) on forward foreign exchange contracts		
- Net loss / (gain) on cash flow hedging instruments reclassified from equity	**3.8**	(5.2)
- Net gain on forward foreign exchange contracts	**(1.3)**	(2.2)

Note:

(i) Gain on disposal of an investment during the year ended 31 March 2018 and gain on disposal of non-current asset held for sale during the year ended 31 March 2019 are included in other income in the Consolidated Statement of Profit or Loss.

4. Taxation

	2019 **US$ million**	2018 US$ million
Current tax		
- Hong Kong	**12.1**	17.7
- Overseas	**9.2**	7.2
(Over) / under-provision in respect of prior years		
- Hong Kong	**(0.3)**	(1.5)
- Overseas	**(0.1)**	0.5
Deferred tax		
- Origination and reversal of temporary differences	**0.1**	0.8
	21.0	24.7
Current tax	**20.9**	23.9
Deferred tax	**0.1**	0.8
	21.0	24.7

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year.

(b) Overseas taxation has been calculated at the current rates of taxation prevailing in the jurisdiction in which the Group operates.

5. Dividends

	2019 US$ million	2018 US$ million
Interim dividend of US17.0 cents (2018: US17.0 cents) per share declared and paid	**42.8**	42.8
Final dividend of US50.0 cents (2018: US63.0 cents) per share proposed after the end of the reporting period	**125.8**	158.5

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

At a meeting held on 17 May 2018, the Directors proposed a final dividend of US63.0 cents per ordinary share for the year ended 31 March 2018, which was estimated to be US$158.4 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2018. The final dividend was approved by shareholders at the annual general meeting on 11 July 2018. The final dividend paid in respect of the year ended 31 March 2018 totaled US$158.5 million.

6. 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$171.3 million (2018: US$206.3 million).

The calculation of basic earnings per share is based on the weighted average of 251.3 million (2018: 251.1 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share for the year ended 31 March 2019 was based on 251.4 million ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme and the number of dilutive potential Awarded Shares under the Company's Share Purchase Scheme. No material adjustment has been made to the basic earnings per share presented for the year ended 31 March 2018 as the Company did not have any significant dilutive potential Awarded Shares during the year.

7. Debtors, deposits and prepayments

At 31 March 2019, total debtors, deposits and prepayments of US$319.1 million (31 March 2018: US$348.0 million) included net trade debtors of US$263.0 million (31 March 2018: US$264.9 million).

At the end of the reporting period, the ageing analysis of trade debtors, based on the invoice date and net of loss allowance, is as follows:

	2019 US$ million	2018 US$ million
0-30 days	**144.7**	145.6
31-60 days	**75.5**	77.1
61-90 days	**36.8**	30.9
>90 days	**6.0**	11.3
Total	**263.0**	264.9

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.

8. Creditors and accruals

At 31 March 2019, total creditors and accruals of US$443.9 million (31 March 2018: US$416.7 million) included trade creditors of US$244.7 million (31 March 2018: US$209.4 million).

At the end of the reporting period, an ageing analysis of trade creditors by invoice date is as follows:

	2019 **US$ million**	2018 US$ million
0-30 days	**94.3**	74.6
31-60 days	**40.3**	39.9
61-90 days	**55.7**	57.0
>90 days	**54.4**	37.9
Total	**244.7**	209.4

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31 March 2019 as set out in the announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Boards and consequently no assurance has been expressed by the auditor.

FINAL DIVIDEND

The Board of Directors (the "Board") has recommended a final dividend (the "Final Dividend") of US50.0 cents per ordinary share in respect of the year ended 31 March 2019, payable on 29 July 2019 to shareholders whose names appear on the register of members of the Company as at the close of business on 18 July 2019 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on 12 July 2019 (the "2019 AGM").

The Final 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 16 July 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

(a) For the purpose of determining shareholders who are entitled to attend and vote at the 2019 AGM, the register of members of the Company will be closed from 9 July 2019 to 12 July 2019 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2019 AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the principal share registrar of the Company, MUFG Fund Services (Bermuda) Limited of The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda, or the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. (local time of the relevant share registrar) on 8 July 2019.

(b) For the purpose of determining shareholders who are qualified for the Final Dividend, the register of members of the Company will be closed on 18 July 2019, during which no transfer of shares will be effected. In order to qualify for the Final Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the principal share registrar of the Company, MUFG Fund Services (Bermuda) Limited of The Belvedere Building, 69 Pitts Bay Road, Pembroke HM08, Bermuda, or the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. (local time of the relevant share registrar) on 17 July 2019.

LETTER TO SHAREHOLDERS

The financial year 2019 saw both achievements and challenges for VTech. Electronic learning products delivered a slight sales increase despite the absence of Toys"R"Us in many of the Group's major markets. Contract manufacturing services posted strong growth and the Group successfully integrated its recently acquired manufacturing facilities in Malaysia. The performance of telecommunication products was below expectations, however, which resulted in weaker-than-anticipated Group revenue and profit.

Results and Dividend

Group revenue for the year ended 31 March 2019 increased by 1.5% to US$2,161.9 million, led by higher sales in Europe and Asia Pacific.

Profit attributable to shareholders of the Company decreased by 17.0% to US$171.3 million. The decline was mainly due to the lower revenue of telecommunication (TEL) products, product mix and higher costs.

Basic earnings per share decreased by 16.9% to US68.2 cents, compared to US82.1 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US50.0 cents per ordinary share, providing a full-year dividend of US67.0 cents per ordinary share, a 16.3% decrease from the US80.0 cents declared in the previous financial year. This represents a dividend payout ratio of 98.4%.

Costs

The gross profit margin of the Group declined from 33.0% in the financial year 2018 to 29.4% in the financial year 2019. The decrease was due to higher materials prices, in part arising from tight supply of certain components, product mix, as well as a rise in direct labour costs and manufacturing overheads.

US-China Trade Tension

During the financial year 2019, the US Government began to impose additional tariffs on Chinese imports. In total, around US$250 billion of goods from China to the US have been subjected to additional tariffs ranging from 10% to 25%. Negotiations have been underway regarding the trade arrangements between the two countries. On 10 May 2019, the tariffs on US$200 billion of Chinese imports were raised from 10% to 25%. In addition, about US$300 billion of Chinese goods could be made subject to 25% tariffs in the event an agreement was not reached.

As of today, none of VTech's electronic learning products (ELPs) or TEL products is subject to such tariffs. However, a number of the Group's contract manufacturing services (CMS) customers in the US are affected. Some of them are making plans to move part of their production from the Group's manufacturing facilities in Dongguan, mainland China to its recently acquired production facilities in Malaysia. Despite this, there was little impact on the Group revenue in the financial year 2019.

Our Business

The Group's ELPs business saw a slight revenue growth in the financial year 2019, as sales increases in North America and Asia Pacific offset a decline in Europe and Other Regions. In the calendar year 2018, VTech strengthened its position globally as the number one supplier of electronic learning toys from infancy through toddler and preschool[1].

The financial year 2019 was the first year of sales without the major toy retailer Toys"R"Us in the US, UK and Australian markets. Although the retailer had been one of the Group's top five customers, the measures taken by VTech to mitigate the impact and the efforts of other retailers to fill the gap in the market enabled the Group's ELPs revenue grow by 0.8% over the previous financial year. In continental Europe, sales were affected by tough market conditions in the Group's major European countries, compounded by the logistics issues in the first half of the financial year 2019.

Standalone products posted growth, with higher sales of LeapFrog branded products offsetting a decline in VTech branded products. The LeapFrog brand benefited from the launch of new standalone toys as part of a strategy to expand this side of the business. Platform products, however, saw sales decrease overall. There were strong performances from Kidizoom® Smartwatch DX2 and KidiBuzz®/KidiCom Max™, as well as continued growth in the Touch and Learn Activity Desk™ series. LeapStart® 3D, the new interactive learning system combining real books with 3D-like animation, was launched during the financial year 2019 and achieved good sell-through. This, together with LeapStart/MagiBook™ and LeapReader™, saw LeapFrog reading systems achieve overall growth. These gains, however, were insufficient to offset declining sales of children's educational tablets. The higher sales of standalone products contributed to an increase of their percentage share within total ELPs

[1] Sources:

NPD Multi-Country Database Retail Tracking Service for projected US dollar sales in the US, Canada, France, Germany, the UK and Spain in the categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018

MarketWise Consumer Insights LLC, Global Market Share Estimates. Ranking based on total retail sales in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018 revenue, from 77% in the financial year 2018 to 79% in the financial year 2019, with that of platform products falling from 23% to 21%.

Sales of TEL products in the financial year 2019 were lower than anticipated, since sales in the second half failed to recover as expected. Growth in commercial phones was offset by declining sales of residential phones and other telecommunication products. The fall in sales was attributable to keen competition, supplier consolidation among US retailers and financial problems faced by some of the Group's customers.

Sales of residential phones declined by 23.4% year-on-year. This was mainly due to the continued contraction of the fixed-line telephone markets, compounded by the loss of shelf space in the club and consumer electronics channels in the US due to supplier consolidation. In the financial year 2019, VTech nonetheless retained its leadership position as the number one manufacturer of residential phones in the US[2].

Sales of commercial phones and other telecommunication products experienced a mixed performance. Commercial phones maintained a positive momentum. This was driven by higher sales of VoIP (Voice over Internet Protocol) phones, headsets and hotel phones. In the financial year 2019, a completely new series of Snom VoIP phones was launched. It includes a high-end model, which features a large, high resolution colour display, an entry-level model and IP-DECT systems and handsets. In contrast, sales of other telecommunication products decreased, as baby monitors, integrated access devices (IADs), CAT-iq (Cordless Advanced Technology – internet and quality) handsets, the CareLine range and wireless monitoring systems all saw declines. Commercial phones and other telecommunication products saw their share of total TEL products revenue increase further, from 42% in the previous financial year to 46% in the financial year 2019.

VTech will continue to focus on commercial phones and other telecommunication products to achieve revenue growth and improve the profitability of the TEL products business. For residential phones, the Group targets to recoup lost market share and consolidate its market leadership. The goal remains to deliver innovative products to customers in a cost efficient manner. In support of this strategy, the Group has recently taken steps to streamline the operations of the business to make it more responsive to the market. The restructuring has seen the appointment of a new president and re-organisation of the senior management team. Global resources in research and development (R&D) have been refocused, which is enabling the product design and development process to be strengthened. Sales and marketing and supply chain management are also being re-organised globally to increase their efficiency.

VTech's CMS posted its seventeenth consecutive year of growth in the financial year 2019. Growth was seen across the board, with the strongest performance coming from professional audio equipment, hearables and industrial products. During the financial year, the Group successfully integrated its recently acquired manufacturing facilities in Malaysia. As a result, professional audio equipment was boosted by a sales consolidation from the DJ equipment business that formed part of the acquisition. Sales of hearables increased, as the Group's existing customers launched new products and their products sold well. In addition, VTech gained market share as some orders from an existing customer were transferred in from competitors. Growth in industrial products was boosted by increased orders for printed circuit board assembly for note-counting devices and industrial printers, as well as higher demand from internet-connected smart thermostats and smart air-conditioning controls.

[2] Source: MarketWise Consumer Insights, LLC

The consistent year-on-year growth delivered by VTech's CMS business bears witness to its excellent reputation, manufacturing know-how, stable management and outstanding customer service. It also endorses the Group's strategy of targeting the professional, industrial and commercial product categories, being strongly customer focused and continually adopting state-of-the-art manufacturing technology.

Outlook

Group revenue is difficult to gauge for the financial year 2020, as new tariffs may potentially be applied to practically all Chinese imports. VTech is now accessing the impact and taking steps to mitigate it, which includes expanding our newly acquired production facilities in Malaysia.

Meanwhile, the pressure on materials prices is forecast to abate and labour costs to be stable in this financial year, which are positive to the gross margin.

In ELPs, the Group aims to strengthen its market leadership in North America and Europe through new product launches. For standalone products, this will be led by the expansion of core learning products under both the VTech and LeapFrog brands. In North America, VTech will begin to sell its first robotics toy, Myla the Magical Unicorn™, which was introduced in the Group's key European markets last year. In the LeapFrog brand, LeapBuilders® will be introduced in the US, following its positive reception already in Europe. Platform products will see several key items launched in the financial year 2020. The LeapFrog brand will introduce RockIt Twist™, a brand new handheld gaming product targeting children aged between four and eight. The LeapStart range will be strengthened by the addition of LeapStart Go. A newly designed version of KidiBuzz/KidiCom Max, adding augmented reality games and live face-tracking photo filters, will be introduced in the US and UK to boost sales of the VTech range. Continued growth in Australia and mainland China will support higher sales in Asia Pacific.

For TEL products, the core strategy is to stabilise revenue through more new product introductions. Sales of commercial phones and other telecommunication products are forecast to increase. The roll-out of the new product line under the Snom brand in the financial year 2019 has laid the groundwork for higher sales of VoIP phones. These models will soon be joined by a new cordless conference phone with wireless microphones. The momentum in headsets will continue as more products are launched, while further growth in hotel phones will be supported by the addition of customers in Macau and New Zealand. Sales of baby monitors, CAT-iq handsets and IADs will benefit from new product launches. In residential phones, the decline in sales is expected to slow as VTech recoups some lost market share in the US and becomes the sole supplier to some key retail customers.

CMS is on track for an eighteenth consecutive year of growth, subject to further trade developments between US and China. Professional audio equipment will be boosted by rising sales at existing customers and the contribution of the new DJ equipment business. The strong momentum in hearables will continue, as a major customer will launch a new generation of headsets and transfer the production to VTech. Industrial products will also grow. Orders for internet-connected smart thermostats and smart air-conditioning controls are expected to rise, as the existing customer's complete product line enters full production. The medical and health products business will benefit from the decision by a customer to let VTech manufacture the finished products of its hearing aids.

A number of new initiatives will help CMS to expand revenue and lower costs. An NPI (New Product Introduction) Centre is being set up within the Group's existing R&D facilities in Shenzhen, with the aim of capturing business opportunities from start-up companies. The Group is also taking steps to enhance supplier management. This will secure the best level of services from suppliers during critical supply situations.

Finally, as ever my thanks go to my fellow directors for their sage advice during the year, to our business partners and shareholders for their support, and to all my colleagues at VTech for their hard work and dedication. VTech has the dedicated teams globally, solid R&D capabilities and strong balance sheet to cope with the current uncertainties and deliver increasing value to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the year ended 31 March 2019

	2019 US$ million	2018 US$ million	Change US$ million
Revenue	**2,161.9**	2,130.1	31.8
Gross profit	**636.4**	702.0	(65.6)
Gross profit margin	**29.4%**	33.0%	
Other income	**5.9**	4.2	1.7
Total operating expenses	**(449.1)**	(474.9)	25.8
Total operating expenses as a percentage of revenue	**20.8%**	22.3%	
Operating profit	**193.2**	231.3	(38.1)
Operating profit margin	**8.9%**	10.9%	
Net finance expense	**(0.9)**	(0.3)	(0.6)
Profit before taxation	**192.3**	231.0	(38.7)
Taxation	**(21.0)**	(24.7)	3.7
Effective tax rate	**10.9%**	10.7%	
Profit for the year and attributable to shareholders of the Company	**171.3**	206.3	(35.0)
Net profit margin	**7.9%**	9.7%	

Revenue

Group revenue for the year ended 31 March 2019 rose by 1.5% to US$2,161.9 million compared with the previous financial year. The increase in revenue was largely driven by the higher sales in Europe and Asia Pacific, which offset the decrease in revenue in North America and other regions.

	2019		2018		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**994.5**	**46.0%**	1,041.0	48.9%	(46.5)	(4.5%)
Europe	**882.9**	**40.8%**	849.1	39.9%	33.8	4.0%
Asia Pacific	**248.6**	**11.5%**	197.1	9.2%	51.5	26.1%
Other Regions	**35.9**	**1.7%**	42.9	2.0%	(7.0)	(16.3%)
	2,161.9	**100.0%**	2,130.1	100.0%	31.8	1.5%

Gross Profit/Margin

Gross profit for the financial year 2019 was US$636.4 million, a decrease of US$65.6 million or 9.3% compared to the US$702.0 million recorded in the previous financial year. Gross profit margin for the year also reduced from 33.0% to 29.4%. It was mainly attributable to the product mix and higher material prices. The direct labour costs and manufacturing overheads were also higher than the same period last year due to the higher wages in China, which offset the positive impact of further productivity gains.

Operating Profit/Margin

Operating profit for the year ended 31 March 2019 was US$193.2 million, a decrease of US$38.1 million or 16.5% compared with the previous financial year. Operating profit margin also reduced from 10.9% to 8.9%. The reduction in operating profit and operating profit margin was primarily due to the decrease in gross profit and gross profit margin, which offset the decrease in total operating expenses. Operating profit for the financial year 2019 also included the gain on disposal of tangible assets and non-current asset held for sale.

Total operating expenses were US$449.1 million, a decrease of 5.4% compared with the last financial year. Total operating expenses as a percentage of Group revenue also dropped from 22.3% to 20.8%.

Selling and distribution costs decreased from US$318.9 million to US$294.0 million compared with the same period last year. It was mainly attributable to the reduced spending on advertising and promotional activities and the reduction of distribution costs. As a percentage of Group revenue, selling and distribution costs also decreased from 15.0% to 13.6%.

Administrative and other operating expenses decreased from US$78.4 million to US$77.9 million compared with the same period last year. It was mainly due to the decrease in employee related costs. The net exchange gain arising from the Group's global operations in the ordinary course of business was US$0.3 million, as compared with an exchange loss of US$0.1 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue decreased from 3.7% to 3.6%.

During the financial year 2019, the research and development expenses were US$77.2 million, a decrease of 0.5% compared with the previous financial year. Research and development expenses as a percentage of Group revenue was 3.6%, same as the previous financial year.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2019 was US$171.3 million, a decrease of US$35.0 million or 17.0% as compared to the last financial year. Net profit margin also decreased from 9.7% to 7.9%.

Taxation charges decreased from US$24.7 million in the last financial year to US$21.0 million in the financial year 2019. The effective tax rate increased from 10.7% to 10.9%.

Basic earnings per share for the year ended 31 March 2019 were US68.2 cents as compared to US82.1 cents in the previous financial year.

Dividends

During the financial year 2019, the Group declared and paid an interim dividend of US17.0 cents per share, which aggregated to US$42.8 million. The directors of the Company (the "Directors") have proposed a Final Dividend of US50.0 cents per share, which is estimated to be US$125.8 million.

Liquidity and Financial Resources

Shareholders' funds as at 31 March 2019 were US$607.0 million, a decrease of 6.1% from US$646.6 million in the last financial year. Shareholders' funds per share decreased by 6.2% from US$2.57 to US$2.41.

The Group had no borrowings as at 31 March 2019 and 31 March 2018.

The Group's financial resources remain strong. As at 31 March 2019, the Group had net cash of US$237.0 million, a decrease of 6.8% as compared to US$254.4 million as of 31 March 2018. The reduction was mainly attributable to the payment for acquisition of VTech Communications (Malayisa) Sdn. Bhd. (formerly known as Pioneer DJ Malaysia Sdn. Bhd.) ("VT Malaysia"), higher dividend payment as compared with the previous financial year and the unfavourable foreign currency exchange movements on the Group's net assets as a result of the depreciation in foreign currencies against United States Dollar during the year.

Analysis of Cash Flow from Operations

	2019 **US$ million**	2018 US$ million	Change US$ million
Operating profit	**193.2**	231.3	(38.1)
Depreciation and amortisation	**38.0**	36.1	1.9
EBITDA	**231.2**	267.4	(36.2)
(Gain) / loss on disposal of tangible assets and non-current asset held for sale	**(5.9)**	0.5	(6.4)
Gain on disposal of an investment	**-**	(4.2)	4.2
Share-based payment expenses	**4.6**	7.1	(2.5)
Working capital change	**43.5**	(69.2)	112.7
Cash generated from operations	**273.4**	201.6	71.8

The Group's cash generated from operations for the year ended 31 March 2019 was US$273.4 million, as compared to US$201.6 million in the previous financial year. The increase was mainly attributable to the receipt of insurance claim receivable arising from the bankruptcy protection filing of Toys"R"Us in US and Canada during the previous financial year and the lower working capital investment compared with the previous financial year, which offset the decrease in EBITDA in the financial year 2019.

Working Capital Change

	Balance as at 31 March 2018 US$ million	Acquisition of VT Malaysia US$ million	Hedging and others US$ million	Working capital change per cash flow US$ million	**Balance as at 31 March 2019 US$ million**
Stocks	349.9	2.6	-	17.4	**369.9**
Trade debtors	264.9	-	-	(1.9)	**263.0**
Other debtors, deposits and prepayments	83.1	0.2	1.8	(29.0)	**56.1**
Net assets on defined benefit scheme	2.7	-	0.1	(0.2)	**2.6**
Trade creditors	(209.4)	-	-	(35.3)	**(244.7)**
Other creditors and accruals	(207.3)	(2.4)	8.5	2.0	**(199.2)**
Provisions for defective goods returns and other liabilities	(28.4)	-	-	3.5	**(24.9)**
Total working capital	255.5	0.4	10.4	(43.5)	**222.8**

Stocks as of 31 March 2019 were US$369.9 million, increased from US$349.9 million as of 31 March 2018. The turnover days decreased from 102 days to 100 days. The higher stock level was largely due to the increase in in-house production of Snom products and increased demand for the Group's product in the first quarter of the financial year 2020. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities.

As at 31 March 2019 and 2018
All figures are in US$ million unless stated otherwise

	2019	2018
Stocks	**369.9**	349.9
Average stocks as a percentage of Group revenue	**16.6%**	15.8%
Turnover days	**100 days**	102 days

Trade debtors as of 31 March 2019 were US$263.0 million, decreased from US$264.9 million as of 31 March 2018. Debtor turnover days was 65 days, same as 31 March 2018. The overdue balances greater than 30 days accounted for 2.1% of the gross trade debtors as of 31 March 2019.

As at 31 March 2019 and 2018
All figures are in US$ million unless stated otherwise

	2019	2018
Trade debtors	**263.0**	264.9
Average trade debtors as a percentage of Group revenue	**12.2%**	12.7%
Turnover days	**65 days**	65 days

Other debtors, deposits and prepayments as of 31 March 2019 were US$56.1 million, decreased from US$83.1 million as of 31 March 2018. It was mainly attributable to the receipt of insurance claim receivable arising from the bankruptcy protection filing of Toys"R"Us in US and Canada during the previous financial year.

Trade creditors as of 31 March 2019 were US$244.7 million, as compared to US$209.4 million as of 31 March 2018. Creditor turnover days also increased from 91 days to 94 days.

As at 31 March 2019 and 2018 All figures are in US$ million unless stated otherwise	**2019**	2018
Trade creditors	**244.7**	209.4
Turnover days	**94 days**	91 days

Other creditors and accruals as of 31 March 2019 were US$199.2 million, decreased from US$207.3 million as of 31 March 2018, which was mainly due to the fair value change on forward foreign exchange contracts in the financial year 2019.

Provisions for defective goods returns and other liabilities as of 31 March 2019 were US$24.9 million, as compared to US$28.4 million as of 31 March 2018.

Net assets on defined benefit scheme as of 31 March 2019 were US$2.6 million, as compared to US$2.7 million as of 31 March 2018. The decrease was mainly due to the re-measurement of net assets on defined benefit scheme.

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

For the year ended 31 March 2019, the Group invested US$37.3 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.

Capital Commitments and Contingencies

In the financial year 2020, the Group will incur capital expenditure of US$39.8 million for ongoing business operations.

All of these capital expenditures will be financed from internal resources.

As of the financial year end date, the Group had no material contingencies.

Employees

The average number of VTech's employees for the financial year 2019 was around 26,000, compared to 26,100 in the previous financial year. Staff related costs for the year ended 31 March 2019 were approximately US$366 million, as compared to approximately US$354 million in the financial year 2018.

Review of Operations

North America

Group revenue in North America decreased by 4.5% to US$994.5 million in the financial year 2019, as higher ELPs revenue was offset by lower revenues of TEL products and CMS. North America was VTech's largest market, accounting for 46.0% of Group revenue.

ELPs revenue in North America rose by 4.0% to US$476.6 million, with particularly strong growth in Canada. This performance was achieved despite the closure of Toys"R"Us in the US, as some of the Group's existing customers expanded their shelf space and assortment of toys to capture the business previously conducted by the retailer. The Group also increased sales to some second-tier retailers. Additional momentum came from the launch of new VTech and LeapFrog branded products, which were well-received by the market and enabled the Group to gain further market share. As a result, VTech strengthened its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[3].

Standalone products posted growth, driven by higher sales for both the LeapFrog and VTech brands. LeapFrog standalone products saw strong growth, as the Group pursued a strategy to expand the standalone toy business by launching more new products. Among the new items launched, Learning Friends 100 Words Book™, Storytime Buddy™ and Go-with-Me ABC Backpack™ sold especially well. Growth of VTech standalone products was led by higher sales of preschool products such as the PJ Masks Learning Watch™ range, Kidizoom Camera and the Kidi line. These successes offset the decline in the Go! Go! Smart family of products.

Sales of platform products decreased. VTech platform products registered a sales increase, driven by strong sell-through of Kidizoom Smartwatch DX2 and KidiBuzz. LeapFrog reading systems also saw higher sales, led by the good performance of the newly launched LeapStart 3D. These gains, however, were insufficient to offset lower sales of children's educational tablets. Subscriptions to the LeapFrog Academy™ continued to grow steadily.

During the financial year 2019, VTech was given two prestigious awards by its major customers. Target named VTech "Vendor of the Year 2018", while Walmart, the Group's largest customer, honoured VTech with its "Toy Supplier of the Year" award. Both accolades are given in recognition of successful partnerships between the retailers and their toy suppliers. Among individual products, Kidizoom Smartwatch DX assortment was the top selling toy of 2018 in the youth electronics category according to the NPD Group, Retail Tracking Service (NPD). In addition, LeapStart 3D and the Learning Friends 100 Words Book were selected as finalists for the Toy Association's 2019 "Toy of the Year (TOTY) Awards" in the tech and infant/toddler categories respectively.

TEL products revenue in North America decreased by 19.4% to US$263.4 million, with lower sales of residential phones, commercial phones and other telecommunication products. Residential phones were again affected by the continuing contraction of the fixed-line telephone market. The Group also faced keen competition and a trend among retailers to consolidate their suppliers, leading to a loss of shelf space in club and consumer electronics channels. Despite this, VTech maintained its leadership position in the US residential phones market[4].

---

[3] Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018

[4] Source: MarketWise Consumer Insights, LLC

Commercial phones and other telecommunication products posted sales declines, as higher sales of headsets and hotel phones were insufficient to offset lower sales of VoIP phones, baby monitors and wireless monitoring systems. Headsets benefited from the launch and strong sell-through of the world's first 100% voice-controlled headsets by a customer, while hotel phones maintained their growth as the Group won more new projects. Sales of VoIP phones decreased mainly due to a product delay, while baby monitors experienced an overall sales decline as a customer reduced orders. Nonetheless, in the calendar year 2018, the VTech branded baby monitors continued to grow and the Group is the number one baby monitor brand by dollar sales in the US[5]. Wireless monitoring systems were affected by lower sales of Wi-Fi IP cameras.

CMS revenue in North America declined by 0.5% to US$254.5 million. Higher sales of industrial products and medical and health products were offset by lower sales of solid-state lighting and communication products. Meanwhile, sales of professional audio equipment remained stable. Industrial products benefited from increased orders for printed circuit board assembly for note-counting devices and industrial printers. Sales of medical and health products rose on more orders for hearing aids. Solid-state lighting was affected by keen competition faced by the Group's customers, while communication products declined as the customer's product line reached the end of its life cycle.

Europe

Group revenue in Europe increased by 4.0% to US$882.9 million in the financial year 2019. Higher sales of CMS offset lower revenues of ELPs and TEL products. Europe remained VTech's second largest market, accounting for 40.8% of Group revenue.

ELPs revenue in Europe showed a 5.4% decrease to US$343.5 million. All the Group's major European markets reported lower sales. This was mainly attributable to tough market conditions in most of VTech's key European markets. In the UK, Toys"R"Us closed all its stores, while in other European markets some retailers faced financial problems. Logistics issues in continental Europe in the first half of the financial year 2019 resulted in lower shipment of products, which also contributed to the lower sales. However, the Group successfully resolved the logistics issues in the second half of the financial year, recouping most of the sales lost. In the calendar year 2018, VTech maintained its position as the number one infant and toddler toy manufacturer in France, the UK and Germany[6].

In standalone products, sales of VTech branded products were down across the board owing to the tough market conditions and the logistics issues. Sales of LeapFrog branded products remained stable, however. During the financial year 2019, LeapBuilders/BlaBla Blocks®[7], a brand new range of interactive building sets, was launched in the Group's major European markets. The launch marked VTech's expansion into the building set category.

In platform products, sales were lower for both brands. VTech saw higher sales of Kidizoom Smartwatches, augmented by the launch of the updated version of Touch and Learn Activity Desk. Continued growth in LeapFrog reading systems was supported by the launch of LeapStart 3D in the UK market. These gains, however, were insufficient to compensate for lower sales of KidiCom Max and children's educational tablets.

---

[5] Source: The NPD Group Inc., US Retail Tracking Service, Security & Monitoring, Camera Technology: Baby Monitor, Based on Dollar Sales, January – December 2018

[6] Source: NPD Group, Retail Tracking Service

[7] LeapBuilders is sold in the UK under the LeapFrog brand but in the rest of Europe is sold under the VTech brand as BlaBla Blocks

The Group's ELPs gained many key industry awards in the UK and continental Europe during the financial year 2019. The Kidi line of products was named "Top Selling Youth Electronics Property in Europe (EU7) in 2018" by NPD. In the UK, Myla the Magical Make-Up Unicorn™ was among the "Top Toys for Christmas" at Argos. In France, VTech ELPs won three "2018 Grand Prix du Jouet" awards from *La Revue du Jouet* magazine, while BlaBla Blocks Alphabet House was named "Toy of the Year Award 2018" in the category of 0 - 3 years by the Dutch Toy Association.

Revenue from TEL products in Europe decreased by 9.8% to US$119.7 million as sales of residential phones, commercial phones and other telecommunication products decreased.

Residential phones saw sales decline as the fixed line telephone market contracted further. Commercial phones and other telecommunication products had mixed results. VoIP phones continued to expand, supported by a positive reception from customers for the new series of products under the Snom brand. Meanwhile, sales of hotel phones were stable. Other telecommunication products, namely baby monitors, CAT-iq handsets and IADs saw sales declines. A major customer reducing orders led to a sales decrease in baby monitors. Lower sales of existing customers resulted in declining sales for CAT-iq handsets. Sales of IADs decreased due to a reduction in orders by a customer.

CMS revenue in Europe increased by 18.8% to US$419.7 million. Growth was seen across the board, driven by higher sales of hearables, professional audio equipment, industrial products, home appliances and communication products. The growth in hearables was strong, driven by market share gains as the Group took over orders from competitors. It was also supported by new product launches and good sell-through of products by existing customers. Professional audio equipment was boosted by increased orders, as existing customers launched new products which were well-received by the market. The shift towards smart homes continued to benefit the industrial products category. There were more orders for internet-connected smart thermostats and air-conditioning controls. The growth in the UK was buoyed by the introduction of a new generation of smart meters. In home appliances, growth was driven by increased demand for electric ovens in Italy and market share gains by a major customer in Russia. Higher sales of communication products were driven by more orders for network routers from an existing customer.

Asia Pacific

Group revenue in Asia Pacific increased by 26.1% to US$248.6 million in the financial year 2019. Higher sales of ELPs and CMS offset lower sales of TEL products. Asia Pacific represented 11.5% of Group revenue.

Revenue from ELPs in Asia Pacific rose by 12.9% to US$81.2 million, as growth continued in mainland China and Australia. Higher sales of LeapFrog branded products in other Asia Pacific markets also supported the overall growth. In mainland China, the increase in revenues resulted from continued sales increases for infant and toddler products, new product launches and channel expansion. Among the new items introduced, the new KidiSchool line, which was introduced to target the early education segment, was especially well received. Higher penetration among maternity-infant-child specialty retailers and e-commerce retailers also contributed to growth. In addition, the Group benefited from the continued expansion of Toys"R"Us in the country. In the financial year 2019, VTech was given a "2018 Vendor of the Year" award by Toys"R"Us in recognition of the successful collaboration between VTech and the retailer in mainland China. In Australia, sales continued to grow despite the closure of Toys"R"Us in the country. Higher sales were seen in both VTech and LeapFrog products, buoyed by broader listings and a focus on improving channel management. The VTech branded First Steps™ Baby Walker was named "Infant/Preschool Toy of the Year 2018" by the Australian Toy Association.

TEL products revenue in Asia Pacific decreased by 19.9% to US$35.4 million. Lower sales in Japan, Australia and Hong Kong offset growth in Malaysia. In Japan, sales declined owing to reduced shipment of cordless phones to a customer who faced financial problems. In Australia, the continued contraction of the fixed-line telephone market led to lower sales of cordless phones, offsetting growth in baby monitors. Hong Kong saw sales decrease on declines in demand for cordless phones and lower orders for IADs. In contrast to these markets, Malaysia experienced growth as VTech became a key supplier for cordless phones to a major local telephone company.

CMS revenue in Asia Pacific grew by 63.0% to US$132.0 million, led by higher sales of professional audio equipment, medical and health products and home appliances. This offset lower sales of communication products and hearables. Professional audio equipment was boosted by the addition of sales from the DJ equipment business, following completion of the acquisition of the manufacturing facilities in Malaysia from Pioneer Corporation in August 2018. This resulted in a full six-month sales contribution being consolidated in the second half of the financial year 2019. The growth in home appliances was a result of additional revenue generated by one new customer. Medical and health products continued to benefit from higher orders for diagnostic ultrasound systems. In contrast to this growth, sales of communication products declined on reduced orders for marine radios, while hearables were affected by keen competition in the wireless headsets market.

Other Regions

Group revenue in Other Regions, namely Latin America, the Middle East and Africa, fell by 16.3% to US$35.9 million in the financial year 2019. Lower sales of TEL products and ELPs offset higher sales of CMS. Other Regions accounted for 1.7% of Group revenue.

ELPs revenue in Other Regions decreased by 7.1% to US$13.0 million, with higher sales in Latin America unable to compensate for lower sales in the Middle East and Africa.

TEL products revenue in Other Regions declined by 21.9% to US$21.7 million, with lower sales in Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US$1.2 million in the financial year 2019, as compared to US$1.1 million in the previous financial year.

CORPORATE GOVERNANCE PRACTICES

The Company is incorporated in Bermuda and has its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The corporate governance rules applicable to the Company are the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 March 2019, 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. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group as the majority of the Board members are independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee, and a Risk Management and Sustainability Committee, each with defined terms of reference which are no less exacting than those set out in the Code. Full details of the Company's corporate governance practices will be disclosed in the Company's Annual Report for the year ended 31 March 2019.

AUDIT COMMITTEE

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Professor KO Ping Keung and Dr. Patrick WANG Shui Chung as members. All of the members are independent non-executive Directors. It has been established to assist the Board in fulfilling its overseeing responsibilities for financial reporting, risk management, corporate governance functions and evaluation of internal control and auditing processes. It also ensures that the Group complies with all applicable laws and regulations.

Mr. WONG Kai Man, as the chairman of the Audit Committee, has the appropriate financial management expertise as required under the Listing Rules. The Audit Committee has held two meetings during the financial year. In addition to the Audit Committee members, the meetings were attended by the Group Chief Executive Officer, the Company Secretary and Group Chief Compliance Officer, the Group Chief Financial Officer and the external auditor. The work performed by the Audit Committee during the financial year included, but not limited to, reviewing the following:

– audited Group's consolidated financial statements and reports for the year ended 31 March 2018;
– report from the external auditor for the year ended 31 March 2018;
– corporate governance report setting out the corporate governance practices in the 2018 Annual Report in compliance with the Code;
– unaudited Group Interim Financial Report for the six months ended 30 September 2018 in the 2018/2019 Interim Report;
– report from the external auditor based on limited agreed-upon procedures on the unaudited Group Interim Financial Report for the six months ended 30 September 2018 in the 2018/2019 Interim Report;
– corporate governance section setting out the corporate governance practices in the 2018/2019 Interim Report in compliance with the Code;
– accounting principles and practices adopted by the Group;
– appointment of the external auditor and its remuneration;
– fee level and nature of non-audit work performed by the external auditor;
– significant findings by the Internal Audit Department and recommendations for corrective actions;
– reports made under the Whistleblowing Policy;
– respective audit plans of the internal and external auditors;
– training and continuous professional development of the Directors and senior management;
– 2018 Sustainability Report; and
– adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

On the date of this announcement, the Audit Committee met to review the audited Group's consolidated financial statements and reports for the year ended 31 March 2019 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The financial results of the Group for the year ended 31 March 2019 have been reviewed with no disagreement by the Audit Committee.

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

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

Based on the information received from the management, the external auditor and the Internal Audit Department, the Audit Committee is satisfied that the overall financial and operational controls, risk management and internal control system, and the internal audit function of the Group continued to be effective and adequate.

The Audit Committee has also been given the responsibility to oversee the effectiveness of formal procedures for employees to raise any matters of serious concerns and is required to review any reports made by the Internal Audit Department regarding this.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After having made specific enquiries, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

The Company and its subsidiaries have not redeemed any of its shares during the financial year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial year, 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 334,100 Company's shares at a consideration of approximately US$3.4 million.

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

Hong Kong, 20 May 2019

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 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.

www.vtech.com/en/investors