VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2020

PERFORMANCE HIGHLIGHTS

- Group revenue increased by 0.2% to US$2,165.5 million
- Profit attributable to shareholders of the Company grew by 11.3% to US$190.7 million
- Gross profit margin increased from 29.4% to 30.6%
- Dividend payout ratio reduced to 70.0% to conserve cash, with final dividend of US36.0 cents per ordinary share, resulting in a full-year dividend of US53.0 cents per ordinary share
- Reinforcing cost control with strict focus on cash and liquidity
- Malaysian manufacturing base to expand to about 25% of the Group's total production capacity

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 2020 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2020

	Note	**2020** US$ million	2019 (note) US$ million
Revenue	2	**2,165.5**	2,161.9
Cost of sales		**(1,501.9)**	(1,525.5)
Gross profit		**663.6**	636.4
Other income	3	**5.9**	5.9
Selling and distribution costs		**(296.3)**	(294.0)
Administrative and other operating expenses		**(71.8)**	(77.9)
Research and development expenses		**(81.7)**	(77.2)
Operating profit	2(b)	**219.7**	193.2
Net finance expense	3	**(7.4)**	(0.9)
Profit before taxation	3	**212.3**	192.3
Taxation	4	**(21.6)**	(21.0)
Profit for the year and attributable to shareholders of the Company		**190.7**	171.3
Earnings per share (US cents)	6		
- Basic		**75.7**	68.2
- Diluted		**75.7**	68.1

Note: The Group has initially applied International Financial Reporting Standard ("IFRS") 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 1(a).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	2020	2019 (note)
	US$ million	US$ million
Profit for the year	**190.7**	171.3
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Effect of remeasurement of net obligations / assets on defined benefit scheme, net of deferred tax	**(3.7)**	0.2
	(3.7)	0.2
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on hedging, net of deferred tax	**3.3**	5.9
Realisation of hedging reserve, net of deferred tax	**(5.4)**	3.5
Exchange translation differences	**(13.2)**	(20.4)
	(15.3)	(11.0)
Other comprehensive income for the year	**(19.0)**	(10.8)
Total comprehensive income for the year	**171.7**	160.5

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 1(a).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	**2020** **US$ million**	2019 (note) US$ million
Non-current assets			
Tangible assets		**76.0**	84.3
Deposit for acquisition of tangible assets		**1.4**	-
Right-of-use assets		**154.8**	-
Leasehold land payments		**-**	4.5
Intangible assets		**17.7**	18.6
Goodwill		**36.1**	36.1
Interest in an associate		**3.0**	-
Investments		**8.3**	5.4
Net assets on defined benefit scheme		**-**	2.6
Deferred tax assets		**8.3**	5.8
		305.6	157.3
Current assets			
Stocks		**372.6**	369.9
Debtors, deposits and prepayments	7	**272.1**	319.1
Taxation recoverable		**2.6**	3.6
Deposits and cash		**242.5**	237.0
		889.8	929.6
Current liabilities			
Creditors and accruals	8	**(390.8)**	(443.9)
Provisions for defective goods returns and other liabilities		**(24.2)**	(24.9)
Lease liabilities		**(17.9)**	-
Taxation payable		**(9.0)**	(7.7)
		(441.9)	(476.5)
Net current assets		**447.9**	453.1
Total assets less current liabilities		**753.5**	610.4
Non-current liabilities			
Net obligations on defined benefit scheme		**(1.8)**	-
Deferred tax liabilities		**(2.9)**	(3.4)
Lease liabilities		**(147.3)**	-
		(152.0)	(3.4)
Net assets		**601.5**	607.0
Capital and reserves			
Share capital		**12.6**	12.6
Reserves		**588.9**	594.4
Total equity		**601.5**	607.0

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 1(a).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

		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 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		-	-	-	-	-	(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 (note)		12.6	154.3	(1.5)	(21.5)	5.4	457.7	607.0
Effect of adoption of IFRS 16	1	-	-	-	-	-	(11.2)	(11.2)
Adjusted balance at 1 April 2019		12.6	154.3	(1.5)	(21.5)	5.4	446.5	595.8
Changes in equity for the year ended 31 March 2020								
Comprehensive income								
Profit for the year		-	-	-	-	-	190.7	190.7
Other comprehensive income								
Fair value gains on hedging, net of deferred tax		-	-	-	-	3.3	-	3.3
Realisation of hedging reserve, net of deferred tax		-	-	-	-	(5.4)	-	(5.4)
Exchange translation differences		-	-	-	(13.2)	-	-	(13.2)
Effect of remeasurement of net assets / obligations on defined benefit scheme, net of deferred tax		-	-	-	-	-	(3.7)	(3.7)
Other comprehensive income for the year		-	-	-	(13.2)	(2.1)	(3.7)	(19.0)
Total comprehensive income for the year		-	-	-	(13.2)	(2.1)	187.0	171.7
Final dividend in respect of the previous year	5	-	-	-	-	-	(125.9)	(125.9)
Interim dividend in respect of the current year	5	-	-	-	-	-	(42.8)	(42.8)
Shares issued under Share Purchase Scheme		-	1.9	(1.9)	-	-	-	-
Shares purchased for Share Purchase Scheme		-	-	(1.2)	-	-	-	(1.2)
Vesting of shares of Share Purchase Scheme		-	-	3.9	-	-	-	3.9
At 31 March 2020		**12.6**	**156.2**	**(0.7)**	**(34.7)**	**3.3**	**464.8**	**601.5**

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 1(a).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	Note	**2020** US$ million	2019 (note) US$ million
Operating activities			
Operating profit		**219.7**	193.2
Depreciation of tangible assets	3	**37.8**	36.9
Depreciation of right-of-use assets	3	**18.5**	-
Amortisation of leasehold land payments	3	**-**	0.1
Amortisation of intangible assets	3	**0.9**	1.0
Fair value gain on investments measured at fair value through profit or loss	3	**(5.9)**	-
Loss / (gain) on disposal of tangible assets and non-current asset held for sale	3	**0.1**	(5.9)
Share-based payment expenses		**3.9**	4.6
Increase in stocks		**(2.7)**	(17.4)
Decrease in debtors, deposits and prepayments		**44.7**	30.9
(Decrease) / increase in creditors and accruals		**(53.1)**	33.3
Decrease in provisions for defective goods returns and other liabilities		**(0.7)**	(3.5)
Increase in net obligations / decrease in net assets on defined benefit scheme		**0.3**	0.2
Cash generated from operations		**263.5**	273.4
Interest paid		**(1.7)**	(0.9)
Interest on lease liabilities		**(5.7)**	-
Taxes paid		**(19.1)**	(23.2)
Net cash generated from operating activities		**237.0**	249.3
Investing activities			
Purchase of tangible assets		**(33.2)**	(37.3)
Deposit for acquisition of tangible assets		**(1.4)**	-
Proceeds from disposal of tangible assets and non-current asset held for sale		**0.1**	9.2
Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)		**-**	(17.8)
Net cash used in investing activities		**(34.5)**	(45.9)
Financing activities			
Capital element of lease rentals paid		**(17.1)**	-
Payment for shares acquired for Share Purchase Scheme		**(1.2)**	(3.4)
Dividends paid	5	**(168.7)**	(201.3)
Net cash used in financing activities		**(187.0)**	(204.7)
Effect of exchange rate changes		**(10.0)**	(16.1)
Increase / (decrease) in cash and cash equivalents		**5.5**	(17.4)
Cash and cash equivalents at 1 April		**237.0**	254.4
Cash and cash equivalents at 31 March		**242.5**	237.0

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 1(a).

NOTES

1. Basis of preparation

The annual results set out in the announcement are extracted from the Group's consolidated financial statements for the year ended 31 March 2020. 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").

The consolidated 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").

(a) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the 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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRS Interpretations Committee Interpretation 4, *Determining whether an arrangement contains a lease*, Standard Interpretations Committee Interpretation ("SIC") 15, *Operating leases – incentives*, and SIC 27*, Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 and are substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

1. Basis of preparation *(Continued)*

(a) Changes in accounting policies *(Continued)*

IFRS 16, *Leases* *(Continued)*

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group has used the transitional practical expedient and applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. Contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to land and buildings.

At the date of transition to IFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.94%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) The Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 March 2020;

(ii) When measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment);

(iii) The Group excluded the initial direct costs from the right-of-use assets at the date of initial application; and

(iv) The Group used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

1. Basis of preparation *(Continued)*

(a) Changes in accounting policies *(Continued)*

IFRS 16, *Leases* *(Continued)*

(ii) Lessee accounting and transitional impact *(Continued)*

The following table reconciles the operating lease commitments as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

	1 April 2019 US$ million
Operating lease commitments at 31 March 2019	98.1
Less: Commitments relating to leases exempt from capitalisation:	
- short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(3.9)
- lease agreements entered into before but not yet commenced as at 31 March 2019	(23.4)
Add: Lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	111.5
	182.3
Less: total future interest expenses	(37.9)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019	**144.4**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if IFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of IFRS 16). Difference between the right-of-use assets recognised and the lease liabilities, net of deferred tax, of US$11.2 million is recognised as an adjustment to the opening balance of equity at 1 April 2019.

As at 31 March 2019, the Group had no leases previously classified as finance leases.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

1. **Basis of preparation** *(Continued)*

(a) Changes in accounting policies *(Continued)*

IFRS 16, *Leases* *(Continued)*

(ii) Lessee accounting and transitional impact *(Continued)*

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 March 2019 US$ million	Impact of initial application of IFRS 16 US$ million	Carrying amount at 1 April 2019 US$ million
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Right-of-use assets	-	135.1	135.1
Leasehold land payments	4.5	(4.5)	-
Deferred tax assets	5.8	2.6	8.4
Total non-current assets	**157.3**	**133.2**	**290.5**
Lease liabilities (current)	-	(15.2)	(15.2)
Current liabilities	**(476.5)**	**(15.2)**	**(491.7)**
Net current assets	**453.1**	**(15.2)**	**437.9**
Total assets less current liabilities	**610.4**	**118.0**	**728.4**
Lease liabilities (non-current)	-	(129.2)	(129.2)
Total non-current liabilities	**(3.4)**	**(129.2)**	**(132.6)**
Net assets	**607.0**	**(11.2)**	**595.8**

(iii) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. The adoption of IFRS 16 does not have material impact on the financial result and segment results of the Group for the year ended 31 March 2020.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. The capital element is classified as financing cash outflows rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the consolidated statement of cash flows.

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 2020

	North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Other Regions US$ million**	**Total US$ million**
Electronic Learning Products	**493.7**	**333.3**	**83.2**	**12.1**	**922.3**
Telecommunication Products	**243.9**	**112.5**	**27.9**	**16.6**	**400.9**
Contract Manufacturing Services	**252.0**	**440.5**	**148.3**	**1.5**	**842.3**
Total	**989.6**	**886.3**	**259.4**	**30.2**	**2,165.5**

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

The Group's customer base is diversified and include two (2019: one) customers with whom transaction have exceeded 10% of the Group's revenue. The revenue from these two customers accounted for approximately 12% and 10% of the Group's revenue for the year ended 31 March 2020 respectively. For the year ended 31 March 2019, approximately 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 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 primarily in the People's Republic of China ("PRC") and Malaysia 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, investments and interest in an associate.

Segment liabilities include creditors and accruals, provisions for defective goods returns and other liabilities, lease liabilities and net obligations on defined benefit scheme with the exception of taxation payable and deferred tax liabilities.

2. Revenue and Segment Information *(Continued)*

(b) Segment Information *(Continued)*

Year ended 31 March 2020

	North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Other Regions US$ million**	**Total US$ million**
Reportable segment revenue	**989.6**	**886.3**	**259.4**	**30.2**	**2,165.5**
Reportable segment profit	**113.1**	**57.5**	**43.6**	**5.5**	**219.7**
Depreciation and amortisation	**3.4**	**3.6**	**50.2**	**-**	**57.2**
Reportable segment assets	**160.3**	**114.0**	**845.1**	**-**	**1,119.4**
Reportable segment liabilities	**(83.0)**	**(35.2)**	**(463.8)**	**-**	**(582.0)**

Year ended 31 March 2019 (note)

	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)

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 1(a).

(c) Reconciliations of reportable segment assets and liabilities

	2020 US$ million	2019 (note) US$ million
Assets		
Reportable segment assets	**1,119.4**	1,017.4
Intangible assets	**17.7**	18.6
Goodwill	**36.1**	36.1
Interest in an associate	**3.0**	-
Investments	**8.3**	5.4
Taxation recoverable	**2.6**	3.6
Deferred tax assets	**8.3**	5.8
Consolidated total assets	**1,195.4**	1,086.9
Liabilities		
Reportable segment liabilities	**(582.0)**	(468.8)
Taxation payable	**(9.0)**	(7.7)
Deferred tax liabilities	**(2.9)**	(3.4)
Consolidated total liabilities	**(593.9)**	(479.9)

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated, see note 1(a).

3. Profit before taxation

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

	2020 **US$ million**	2019 US$ million
Fair value gain on investments measured at fair value through profit or loss *(Note (i))*	**(5.9)**	-
Depreciation of tangible assets	**37.8**	36.9
Depreciation of right-of-use assets *(Note (iii))*	**18.5**	-
Amortisation of leasehold land payments	**-**	0.1
Amortisation of intangible assets	**0.9**	1.0
Gain on disposal of non-current asset held for sale *(Note (i))*	**-**	(5.9)
Loss on disposal of tangible assets	**0.1**	-
Interest on lease liabilities *(Note (ii))*	**5.7**	-
Other interest expenses, net *(Note (ii))*	**1.7**	0.9
Net foreign exchange loss / (gain)	**0.2**	(0.3)
Net (gain) / loss on forward foreign exchange contracts		
- Net (gain) / loss on cash flow hedging instruments reclassified from equity	**(5.9)**	3.8
- Net gain on forward foreign exchange contracts	**(1.1)**	(1.3)

Notes:

(i) Included in other income in the consolidated statement of profit or loss.

(ii) Included in net finance expense in the consolidated statement of profit or loss.

(iii) The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 April 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(a).

4. Taxation

	2020 **US$ million**	2019 US$ million
Current tax		
- Hong Kong	**13.8**	12.1
- Overseas	**8.2**	9.2
Under / (over)-provision in respect of prior years		
- Hong Kong	**0.1**	(0.3)
- Overseas	**(0.6)**	(0.1)
Deferred tax		
- Origination and reversal of temporary differences	**0.1**	0.1
	21.6	21.0
Current tax	**21.5**	20.9
Deferred tax	**0.1**	0.1
	21.6	21.0

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2019: 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

	2020 **US$ million**	2019 US$ million
Interim dividend of US17.0 cents (2019: US17.0 cents) per share declared and paid	**42.8**	42.8
Final dividend of US36.0 cents (2019: US50.0 cents) per share proposed after the end of the reporting period	**90.6**	125.9

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 20 May 2019, the Directors proposed a final dividend of US50.0 cents per ordinary share for the year ended 31 March 2019, which was estimated to be US$125.8 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2019. The final dividend was approved by shareholders at the annual general meeting on 12 July 2019. The final dividend paid in respect of the year ended 31 March 2019 totaled US$125.9 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$190.7 million (2019: US$171.3 million).

The calculation of basic earnings per share is based on the weighted average of 251.8 million (2019: 251.3 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 2020 was based on 251.8 million ordinary shares (2019: 251.4 million) 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.

7. Debtors, deposits and prepayments

At 31 March 2020, total debtors, deposits and prepayments of US$272.1 million (31 March 2019: US$319.1 million) included net trade debtors of US$221.5 million (31 March 2019: US$263.0 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:

	2020 **US$ million**	2019 US$ million
0-30 days	**141.2**	144.7
31-60 days	**48.1**	75.5
61-90 days	**23.1**	36.8
>90 days	**9.1**	6.0
Total	**221.5**	263.0

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 2020, total creditors and accruals of US$390.8 million (31 March 2019: US$443.9 million) included trade creditors of US$195.4 million (31 March 2019: US$244.7 million).

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

	2020 **US$ million**	2019 US$ million
0-30 days	**66.6**	94.3
31-60 days	**36.0**	40.3
61-90 days	**44.1**	55.7
>90 days	**48.7**	54.4
Total	**195.4**	244.7

9. Non-Adjusting Events after the Reporting Period

Since the outbreak of the novel coronavirus (COVID-19) (the "Coronavirus"), a number of provinces and municipalities in the PRC have taken emergency public health measures and various actions to prevent the spread of the Coronavirus. Following the end of the extended Chinese New Year holiday on 10 February 2020, work has begun resuming in phases in the Group's mainland China factories. The Group is experiencing a slower-than-usual return to normal conditions, as many workers around the country have delayed returning to work. In addition, many suppliers in mainland China extended their shutdowns, causing interruptions to materials supply in February and March. In Malaysia, production at the Group's facilities for CMS customers ceased from mid-March 2020 when the country imposed a "movement control order" to slow the spread of the virus. Production capacity in mainland China and Malaysia began returning to normal in April, with the easing of lockdown measures.

The Group will continue to pay close attention to developments and evaluate the impact of the Coronavirus on the financial position and operating results of the Group.

10. Comparative Figures

The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(a).

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 2020 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 the payment of a final dividend (the "Final Dividend") of US36.0 cents per ordinary share in respect of the year ended 31 March 2020, payable on 27 July 2020 to shareholders whose names appear on the register of members of the Company as at the close of business on 16 July 2020 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on 10 July 2020 (the "2020 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 14 July 2020.

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 2020 AGM, the register of members of the Company will be closed from 7 July 2020 to 10 July 2020 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2020 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 4th Floor North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, 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 6 July 2020.

(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 16 July 2020, 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 4th Floor North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, 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 15 July 2020.

LETTER TO SHAREHOLDERS

The outbreak of the novel coronavirus (COVID-19) in the final three months of the financial year 2020 caused Group revenue for this quarter to decline. It resulted in a flat revenue for the full financial year, while profit recorded growth due to higher gross profit margin.

Results and Dividend

Group revenue for the financial year ended 31 March 2020 increased by 0.2% to US$2,165.5 million, as higher sales in Europe and Asia Pacific offset lower sales in North America and Other Regions.

Profit attributable to shareholders of the Company grew by 11.3% to US$190.7 million. This was mainly attributable to higher gross profit, as a result of lower costs.

Basic earnings per share increased by 11.0% to US75.7 cents, compared to US68.2 cents in the previous financial year.

In light of the COVID-19 crisis and the resulting unprecedented negative business outlook, the Board of Directors considers it prudent to reduce the dividend payout ratio as compared with the prior financial year so as to conserve cash. This will ensure the Group has ample financial resources to navigate the exceptional period of turbulence. Accordingly, a final dividend of US36.0 cents per ordinary share has been proposed, providing a full-year dividend of US53.0 cents per ordinary share, a 20.9% decrease from the US67.0 cents declared in the previous financial year. This represents a dividend payout ratio of 70.0%.

Costs

The Group's gross profit margin in the financial year 2020 increased to 30.6%, from 29.4% in the previous financial year. Materials prices were lower, while direct labour costs benefitted from the depreciation of the Renminbi. Manufacturing overheads remained stable.

US-China Trade Tension

On 15 January 2020, a phase one trade deal was signed between China and the US. A 15% tariff that was imposed on VTech's residential cordless phones from 1 September 2019 was reduced to 7.5%, effective 14 February 2020. A number of the Group's contract manufacturing services (CMS) customers have also been affected by the tariffs, ranging from 7.5% to 25%. As of today, all but a few of the Group's electronic learning products (ELPs) are exempt from the US tariffs.

Our Businesses

The ELPs business achieved a small increase in revenue in the financial year 2020, as a further rise in sales in North America and Asia Pacific offset declines in Europe and Other Regions.

In the calendar year 2019, VTech was the number one supplier of electronic learning toys from infancy through toddler and preschool globally[1 & 2]. In North America, the Group gained market share, strengthening its position as the largest manufacturer of electronic learning toys from infancy through

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Source:

[1] Ranking based on The NPD Group Retail Tracking Service for Projected US Dollar Sales in the US, Canada, France, Germany, the UK and Spain 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 2019

[2] Global Market Share Estimates by MarketWise Consumer Insights, LLC. 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 2019

toddler and preschool[3]. Especially noteworthy was the performance in Canada, where VTech has overtaken the competition to become the number one supplier in the infant and toddler toys categories[4]. In Europe, the Group remained the number one infant and toddler toy manufacturer in France, the UK, Germany, Spain and Belgium[5]. In Asia Pacific, the Group saw further gains in market share, notably in Australia.

Looking at the product lines, LeapFrog delivered a strong performance, with growth in both standalone and platform products. The LeapFrog Learning Friends 100 Words Book™ has been a resounding success, while the brand's infant, toddler and preschool products fared well overall as retailers increased shelf space to meet demand. The interactive building sets range, LeapBuilders®, also did well in North America on the back of good support from retailers. For platform products, growth was driven by new product launches, including RockIt Twist™, LeapStart® Go and Magic Adventures Globe™. Sales of LeapFrog reading systems and children's educational tablets recorded declines. Despite this, the addition of LeapStart Go to the existing line-up has reinforced the Group's dominance of the reading category.

The VTech brand, by contrast, saw sales of both standalone and platform products decline. In standalone products, sales of infant and toddler products, as well as Go! Go! Smart Wheels®, were lower. This offset sales increases in preschool products, where Myla the Magical Unicorn™ and PJ Masks Learning Watch™ performed particularly well. The Kidi line and Switch & Go Dinos® also achieved higher sales. Of special noteworthiness was the KidiZoom® line of cameras, which again managed to maintain a high level of sales after over ten years in the market. A new range of interactive animal playsets called ZoomiZooz® was introduced to the key markets in Europe and Asia Pacific, supporting sales. In platform products, children's educational tablets and KidiBuzz™/KidiCom Max® saw sales decreases, offsetting growth in KidiZoom Smartwatches and Touch & Learn Activity Desk™.

The Group's partnership with Netflix, season one of the animated series Go! Go! Cory Carson™ (which is called Toot-Toot Cory Carson™ in Europe) premiered globally in January 2020 and is bearing fruit. Playsets and vehicles featuring the Go! Go! Cory Carson characters reached the shelves in the US in March 2020.

As a result of these developments, standalone products increased their percentage share of total ELPs revenue from 79% in the financial year 2019 to 80% in the financial year 2020.

The decline in sales of telecommunication (TEL) products slowed down in the financial year 2020. The fixed-line telephone markets continue to contract, but the rate of decrease for the Group's residential phones moderated as VTech became the exclusive supplier to a key US retailer. In the financial year 2020, VTech increased market share and remained the number one manufacturer of residential phones in the US[6].

The Group's commercial phones and other telecommunication products saw an overall decline in sales, as the sales decreases in commercial phones offset the revenue growth of other telecommunication products.

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[3] NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2019

[4] NPD Group, Retail Tracking Service

[5] NPD Group, Retail Tracking Service

[6] MarketWise Consumer Insights, LLC, April 2019 – March 2020

In commercial phones, declines in small-to-medium sized business (SMB) phones, headsets and hotel phones offset growth in VoIP (Voice over Internet Protocol) phones and conference phones. Other telecommunication products achieved overall growth, as sales of CAT-iq (Cordless Advanced Technology—internet and quality) handsets and the CareLine™ range increased, compensating for declines in baby monitors, integrated access devices (IADs) and wireless monitoring systems. In the financial year 2020, VTech branded baby monitors gained market share and maintained their position as the number one brand by dollar sales in the US and Canada[7]. Commercial phones and other telecommunication products saw their share of total TEL products revenue increase further, from 46% in the previous financial year to 49% in the financial year 2020.

VTech's CMS business posted its 18th consecutive year of growth in the financial year 2020. The Group now ranks 25th in the world among electronics manufacturing services providers, and first in Hong Kong, according to *Manufacturing Market Insider*[8].

There was a mixed performance from the different product categories. Sales of professional audio equipment, hearables, medical and health products and IoT (Internet of Things) products trended higher, while those of power supplies, industrial products, communication products and solid-state lighting were down. The home appliances business was stable. Professional audio equipment, hearables, industrial products and medical and health products remained the top four product categories of VTech's CMS business.

During the financial year 2020, the Group was able to help CMS customers affected by additional US tariffs to move their production lines to VTech's facilities in Muar, Malaysia. The Malaysian manufacturing operations have also increased their share of business with some customers, as competitors have failed to offer manufacturing alternatives outside mainland China. The consistent year-on-year growth delivered by VTech's CMS is a testament to its high level of service and ability to meet customer needs.

Impact of COVID-19

The COVID-19 pandemic has caused disruptions to VTech in both the supply and demand for products.

On the supply side, in mainland China, the long Chinese New Year holiday in January 2020 was extended and factories were required to resume work in phases. Furthermore, many suppliers there extended their shutdowns, causing interruptions to materials supply in February and March. In Malaysia, production at the Group's facilities for CMS customers ceased from mid-March 2020 when the country imposed a "movement control order" to slow the spread of the virus. Production capacity in mainland China and Malaysia began returning to normal in April, with the easing of lockdown measures.

On the demand side, most of the Group's major markets have been in different levels of lockdown since late January 2020, adversely affecting shipments across all VTech's businesses.

In response to COVID-19, the Group has stepped up its efforts to ensure a safe working environment at all its locations worldwide, in line with local government and World Health Organisation recommendations. In mainland China, the Group has been producing face masks for its local workers and staff since mid-March 2020.

[7] The NPD Group Inc., Retail Tracking Service, US & Canada, Baby Monitors, Dollar and unit sales adjusted, April 2019 – March 2020

[8] *Manufacturing Market Insider*, March 2020 edition

Around the world, VTech and its employees have been increasing their support for local communities. This includes making financial donations, supporting children in need with educational toys, offering free online learning, as well as donating baby monitors and surgical masks to hospitals.

Outlook

COVID-19 is an unprecedented crisis affecting the entire world and makes the outlook for the financial year 2021 highly uncertain. With the Group's key markets still in different stages of lockdown, resulting in lower orders and demand for products, revenues from all businesses for the financial year 2021 are expected to decrease.

To mitigate the impact of lower orders and weaker demand, VTech is reinforcing its cost control and maintaining a strict focus on cash and liquidity. The Group will streamline its operations and slow its new capital expenditure. Inventory management is being tightened and accounts receivable are being closely monitored, especially for those smaller customers more at risk of experiencing financial difficulties. With the acceleration in the shift to purchasing online, the Group is stepping up its efforts to increase sales to e-tailers and other online sales channels. To consolidate its market leadership, VTech will speed up product development and roll out more innovative products to the markets.

Looking at ELPs, the Group will focus on strengthening its market position through new product launches and expansion in the Asia Pacific region. In standalone products, new infant, toddler and preschool products are being rolled out under both the VTech and LeapFrog brands. Myla's Sparkling Friends™, an addition to the robotics category offering for girls, will be launched in the US in Autumn 2020. It consists of a range of fantastical creatures that talk, sing and light up in different colours. The successful Kidi line will benefit from the arrival of KidiZoom Creator Cam, a high-definition video camera kit offering basic editing capabilities. LeapBuilders will be strengthened through the addition of popular Blue's Clues & You! characters. In platform products, a new generation of KidiBuzz/KidiCom Max will be introduced. In Asia Pacific, VTech is stepping up digital marketing efforts and increasing sales to online sales channels in mainland China, while increasing penetration in Japan and Malaysia through channel expansion and more product introductions.

For TEL products, high definition video baby monitors and super-long range residential cordless phones that have been delivered to market in the second half of the financial year 2020 will contribute to revenue. A new line of VoIP phones under the Snom brand will be rolled out, which will drive revenue growth in commercial phones. For hotel phones, a newly designed series based on SIP (Session Initiation Protocol) and PSTN (Public Switched Telephone Network) technology will be introduced to regain market share. Anti-bacterial technology will be applied to both the hotel phones and Snom branded business phones to enhance these products' appeal. A new baby monitor using cutting-edge technology, along with a baby care app, will strengthen VTech's lead in the US and Canada, while new IADs with Wi-Fi 6 standard will expand this product category.

Under the impact of COVID-19, CMS customers have been revising their orders as markets suffer the effects of the lockdowns, resulting in uncertain demand for products. To open up new business avenues, an NPI (New Product Introduction) centre is expected to open in the Group's research and development centre in Shenzhen, mainland China in the second quarter of the financial year 2021. It aims to capture new business from the many start-ups in this technology industry hub.

In line with the strategy of rationalising its production base, in December 2019 VTech signed an agreement to acquire its second manufacturing facility in Malaysia. It comprises over 500,000 square feet of buildings in Penang. The new facility, which is expected to commence operations by the end of the financial year 2021, will be used to manufacture ELPs and TEL products destined for the US market. Meanwhile, the existing CMS facilities in Muar will undergo an expansion. This will be carried out in two phases, adding 50% of capacity upon completion. The Malaysian manufacturing facilities will account for about 25% of the Group's total production capacity.

I wish to thank my fellow directors for their counsel, which has been especially valuable in these turbulent times, and our employees throughout the world for continuing to work with dedication in such difficult circumstances. I also wish to acknowledge the support of all our shareholders and business partners.

VTech has a strong balance sheet and solid fundamentals, including market leadership in many product categories. This will enable us to weather the storm and take advantage of new opportunities when they arise.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the year ended 31 March 2020

	2020 US$ million	2019 US$ million	Change US$ million
Revenue	**2,165.5**	2,161.9	3.6
Gross profit	**663.6**	636.4	27.2
Gross profit margin	**30.6%**	29.4%	
Other income	**5.9**	5.9	-
Total operating expenses	**(449.8)**	(449.1)	(0.7)
Total operating expenses as a percentage of revenue	**20.8%**	20.8%	
Operating profit	**219.7**	193.2	26.5
Operating profit margin	**10.1%**	8.9%	
Net finance expense	**(7.4)**	(0.9)	(6.5)
Profit before taxation	**212.3**	192.3	20.0
Taxation	**(21.6)**	(21.0)	(0.6)
Effective tax rate	**10.2%**	10.9%	
Profit for the year and attributable to shareholders of the Company	**190.7**	171.3	19.4
Net profit margin	**8.8%**	7.9%	

Revenue

Group revenue for the year ended 31 March 2020 increased by 0.2% to US$2,165.5 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.

	2020		2019		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**989.6**	**45.7%**	994.5	46.0%	(4.9)	(0.5%)
Europe	**886.3**	**40.9%**	882.9	40.8%	3.4	0.4%
Asia Pacific	**259.4**	**12.0%**	248.6	11.5%	10.8	4.3%
Other Regions	**30.2**	**1.4%**	35.9	1.7%	(5.7)	(15.9%)
	2,165.5	**100.0%**	2,161.9	100.0%	3.6	0.2%

Gross Profit/Margin

Gross profit for the financial year 2020 was US$663.6 million, an increase of US$27.2 million or 4.3% compared to the US$636.4 million recorded in the previous financial year. Gross profit margin for the year also increased from 29.4% to 30.6%. It was mainly attributable to the lower materials prices, while direct labour costs and manufacturing overheads benefited from depreciation of Renminbi against the US dollar.

Operating Profit/Margin

Operating profit for the year ended 31 March 2020 was US$219.7 million, an increase of US$26.5 million or 13.7% compared with the previous financial year. Operating profit margin also increased from 8.9% to 10.1%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit and gross profit margin, which offset the increase in total operating expenses. Operating profit for the financial year 2020 also included a fair value gain of US$5.9 million on an investment in a company that designs and distributes integrated circuit products, while the gain on disposal of tangible assets of US$ 5.9 million was recorded in the last financial year.

Total operating expenses were US$449.8 million, an increase of 0.2% compared with the last financial year. Total operating expenses as a percentage of Group revenue was 20.8%, same as the previous financial year.

Selling and distribution costs increased from US$294.0 million to US$296.3 million compared with the same period last year. It was mainly attributable to the increased spending on advertising and promotional activities by the Group during the financial year 2020. As a percentage of Group revenue, selling and distribution costs also increased from 13.6% to 13.7%.

Administrative and other operating expenses decreased from US$77.9 million to US$71.8 million compared with the same period last year. It was mainly due to the decrease in employee related costs arising from the restructuring of the TEL US operation implemented in the last financial year. The net exchange loss arising from the Group's global operations in the ordinary course of business was US$0.2 million, as compared with the net exchange gain of US$0.3 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue decreased from 3.6% to 3.3%.

During the financial year 2020, the research and development expenses were US$81.7 million, an increase of 5.8% compared with the previous financial year. It was mainly due to the increase in employee related costs and project expenses. Research and development expenses as a percentage of Group revenue also increased from 3.6% to 3.8%.

NET FINANCE EXPENSE

Net finance expense increased by US$6.5 million to US$7.4 million for the year ended 31 March 2020. It was mainly due to the recognition of interest on lease liabilities amounting to US$5.7 million upon the adoption of IFRS 16, *Leases*, on 1 April 2019.

TAXATION

Taxation charges increased from US$21.0 million in the last financial year to US$21.6 million in the financial year 2020, while the effective tax rate decreased from 10.9% to 10.2%. The decrease of effective tax rate was mainly attributable to the tax refund relating to the Group's US operation in the financial year 2020.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2020 was US$190.7 million, an increase of US$19.4 million or 11.3% as compared to the last financial year. Net profit margin also increased from 7.9% to 8.8%.

Basic earnings per share for the year ended 31 March 2020 were US75.7 cents as compared to US68.2 cents in the previous financial year.

Dividends

During the financial year 2020, 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 US36.0 cents per share, which is estimated to be US$90.6 million.

Liquidity and Financial Resources

Shareholders' funds as at 31 March 2020 were US$601.5 million, a decrease of 0.9% from US$607.0 million in the last financial year. Shareholders' funds per share decreased by 0.8% from US$2.41 to US$2.39.

The Group had no borrowings as at 31 March 2020 and 31 March 2019.

The Group's financial resources remain strong. As at 31 March 2020, the Group had net cash of US$242.5 million, an increase of 2.3% as compared to US$237.0 million as of 31 March 2019.

Analysis of Cash Flow from Operations

	2020 US$ million	2019 US$ million	Change US$ million
Operating profit	**219.7**	193.2	26.5
Depreciation and amortisation	**57.2**	38.0	19.2
EBITDA	**276.9**	231.2	45.7
Loss / (gain) on disposal of tangible assets and non-current asset held for sale	**0.1**	(5.9)	6.0
Fair value gain of investments	**(5.9)**	-	(5.9)
Share-based payment expenses	**3.9**	4.6	(0.7)
Working capital change	**(11.5)**	43.5	(55.0)
Cash generated from operations	**263.5**	273.4	(9.9)

The Group's cash generated from operations for the year ended 31 March 2020 was US$263.5 million, as compared to US$273.4 million in the previous financial year. The decrease was mainly attributable to the higher working capital investment compared with the previous financial year, which offset the increase in EBITDA in the financial year 2020.

Working Capital Change

	Balance as at 31 March 2019 US$ million	Hedging and others US$ million	Working capital change per cash flow US$ million	**Balance as at 31 March 2020 US$ million**
Stocks	369.9	-	2.7	**372.6**
Trade debtors	263.0	-	(41.5)	**221.5**
Other debtors, deposits and prepayments	56.1	(2.3)	(3.2)	**50.6**
Trade creditors	(244.7)	-	49.3	**(195.4)**
Other creditors and accruals	(199.2)	-	3.8	**(195.4)**
Provisions for defective goods returns and other liabilities	(24.9)	-	0.7	**(24.2)**
Net assets / (obligations) on defined benefit scheme	2.6	(4.1)	(0.3)	**(1.8)**
Total working capital	222.8	(6.4)	11.5	**227.9**

Stocks as of 31 March 2020 were US$372.6 million, increased from US$369.9 million as of 31 March 2019. The turnover days also increased from 100 days to 102 days. The higher stock level was largely due to the reduction of shipments arising from the outbreak of COVID-19. In addition, many of the Group's suppliers in mainland China did not resume work immediately following the extended Chinese New Year holiday, leading to disruption in the supply chain and thus the shipments of the Group's products.

As at 31 March 2020 and 2019

All figures are in US$ million unless stated otherwise	**2020**	2019
Stocks	**372.6**	369.9
Average stocks as a percentage of Group revenue	**17.1%**	16.6%
Turnover days	**102 days**	100 days

Trade debtors as of 31 March 2020 were US$221.5 million, decreased from US$263.0 million as of 31 March 2019. Debtor turnover days also decreased from 65 days to 63 days. The overdue balances greater than 30 days accounted for 3.3% of the gross trade debtors as of 31 March 2020.

As at 31 March 2020 and 2019 All figures are in US$ million unless stated otherwise	**2020**	2019
Trade debtors	**221.5**	263.0
Average trade debtors as a percentage of Group revenue	**11.2%**	12.2%
Turnover days	**63 days**	65 days

Other debtors, deposits and prepayments as of 31 March 2020 were US$50.6 million, decreased from US$56.1 million as of 31 March 2019. It was mainly attributable to the decrease in fair value gain on forward foreign exchange contracts in the financial year 2020.

Trade creditors as of 31 March 2020 were US$195.4 million, as compared to US$244.7 million as of 31 March 2019. Creditor turnover days also decreased from 94 days to 93 days.

As at 31 March 2020 and 2019 All figures are in US$ million unless stated otherwise	**2020**	2019
Trade creditors	**195.4**	244.7
Turnover days	**93 days**	94 days

Other creditors and accruals as of 31 March 2020 were US$195.4 million, decreased from US$199.2 million as of 31 March 2019.

Provisions for defective goods returns and other liabilities as of 31 March 2020 were US$24.2 million, as compared to US$24.9 million as of 31 March 2019.

Net obligations on defined benefit scheme as of 31 March 2020 were US$1.8 million, as compared to net assets on defined benefit scheme of US$2.6 million as of 31 March 2019. The decrease was mainly due to the re-measurement of net liability on defined benefit scheme.

Right-of-use assets and Lease liabilities

As a result of the adoption of IFRS 16, *Leases*, right-of-use assets of US$154.8 million and lease liabilities of US$165.2 million were presented in the consolidated statement of financial position as of 31 March 2020. The adoption of IFRS 16 has resulted in increased depreciation and finance charges, offset by a reduction in lease charges. During the financial year 2020, the Group's depreciation of right-of-use assets amounted to US$18.5 million with related finance costs of US$5.7 million.

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 2020, the Group invested US$33.2 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 2021, the Group will incur capital expenditure of US$47.6 million for ongoing business operations. This includes capital expenditure for the expansion of manufacturing capacity in Malaysia.

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 2020 was around 26,000, same as the previous financial year. Staff related costs for the year ended 31 March 2020 were approximately US$355 million, as compared to approximately US$366 million in the financial year 2019.

Review of Operations

North America

Group revenue in North America decreased by 0.5% to US$989.6 million in the financial year 2020 as higher sales of ELPs were insufficient to offset lower revenues of TEL products and CMS. North America remained VTech's largest market, accounting for 45.7% of Group revenue.

ELPs revenue in North America rose by 3.6% to US$493.7 million, driven by higher sales of both LeapFrog and VTech standalone products. The Group gained market share overall, in large part due to a strong performance in Canada, where VTech overtook the competition to become the number one supplier in the infant and toddler toys category[9]. As a result, the Group strengthened its leadership as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada[10].

In standalone products, the growth of LeapFrog learning toys was particularly robust. The brand benefitted from higher sales of infant, toddler and preschool products as retailers increased shelf space. Good sell-through of items carrying overt educational value, such as LeapFrog Learning Friends 100 Words Book and 2-in-1 LeapTop Touch™, also boosted growth. The newly launched interactive building sets, LeapBuilders, saw solid sales as retailers gave support to the range.

For the VTech brand, preschool products and the Kidi line achieved higher sales, driven by the success of items such as Myla the Magical Unicorn, PJ Masks Learning Watch and the Kidi Star Karaoke Machine™. This growth offset declines in infant and toddler products, KidiZoom Camera and the Go! Go! Smart family of products.

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9 NPD Group, Retail Tracking Service

10 NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2019

In platform products, both LeapFrog and VTech brands registered lower sales. LeapFrog saw a further decline in sales of children's educational tablets, offsetting the contribution from the newly launched handheld gaming system RockIt Twist and Magic Adventures Globe. During the financial year 2020, the line-up of LeapFrog reading platforms was expanded through the introduction of LeapStart Go. This latest version is a sleek, easy-to-hold stylus that triggers videos and audio responses, helping children aged 4 - 8 years to learn. As a result, sales of the LeapFrog reading system were stable, reinforcing the Group's dominance in the reading category. For the VTech brand, lower sales of KidiBuzz offset higher sales of KidiZoom Smartwatches and Touch & Learn Activity Desk.

VTech's partnership with Netflix, the animated series Go! Go! Cory Carson, premiered in January 2020. The response has been good and a range of playsets and vehicles based on the Go! Go! Cory Carson characters reached the shelves in US in March 2020. LeapFrog Academy®, meanwhile, is steadily growing its subscriber base.

Once again, VTech ELPs won numerous prestigious awards from industry and consumer organisations. In the US, five VTech and LeapFrog products were finalists for the "2020 Toy of the Year (TOTY) Awards" from The Toy Association: Myla the Magical Unicorn in the preschool category; Mix & Match-a-Saurus™ and LeapBuilders 123 Fix-It Truck™ in the infant/toddler category; RockIt Twist for "Innovative Toy of the Year"; and LeapBuilders ABC Smart House™ in the construction category. Both Myla the Magical Unicorn and Mix & Match-a-Saurus made Walmart's "Top Rated by Kids" list in 2019. In Canada, RockIt Twist and Myla the Magical Unicorn were named to Walmart's list of "Top Toys for 2019".

TEL products revenue in North America declined by 7.4% to US$243.9 million, with lower sales of residential phones, commercial phones and other telecommunication products.

In residential phones, sales continued to decrease as the fixed-line telephone market contracted further. However, the rate of decline moderated as the Group became exclusive supplier to a key US retailer. In the financial year 2020, VTech gained market share and maintained its number one position in the US residential phones market[11].

For commercial phones and other telecommunication products, sales of SMB phones, hotel phones, headsets and baby monitors were lower, offsetting growth in VoIP phones and conference phones. VTech's range of SMB phones has reached the end of its life cycle, leading to a reduction in sales. Hotel phones faced the pressure of a very competitive marketplace. Sales of headset products fell because of an existing customer with excess inventory, although this was partially offset by a new customer's launch of a mobile phone station. Baby monitors experienced an overall sales decline as a number of customers reduced orders. Nonetheless, in the financial year 2020, VTech gained market share and retained its position as the number one baby monitor brand by dollar sales in the US and Canada[12]. The Group's award-winning Snom products contributed to the overall growth in VoIP phones.

CMS revenue in North America was 1.0% lower at US$252.0 million. The decrease resulted mainly from the growth in professional audio equipment and medical and health products being offset by lower sales of industrial and communication products. Professional audio equipment grew as a backlog of orders for a customer cleared following an improvement in the materials supply, while another customer increased orders as it benefitted from a new product launch. Growth in medical and health products was driven by higher sales of hearing aids. This came as a customer transferred part of its in-house production to VTech and contracted for the manufacture of finished products rather than

[11] MarketWise Consumer Insights, LLC, April 2019 – March 2020
[12] The NPD Group Inc., Retail Tracking Service, US & Canada, Baby Monitors, Dollar and unit sales adjusted, April 2019 – March 2020

printed circuit board (PCB) assembly. Sales of industrial products fell on lower orders for note counting machines and electronic locks, while sales of communication products declined as the customer's product reached the end of its life cycle. The solid-state lighting business, meanwhile, was largely stable.

Europe

Group revenue in Europe increased by 0.4% to US$886.3 million in the financial year 2020, as higher CMS sales offset lower revenues from ELPs and TEL products. Europe was VTech's second largest market, accounting for 40.9% of Group revenue.

ELPs revenue in Europe declined by 3.0% to US$333.3 million. The European markets were affected by weakness of the European currencies, the lingering effects of the Toys"R"Us bankruptcy and the financial difficulties faced by smaller retailers in the region. Sales of both standalone and platform products were lower. Despite this, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany, Spain and Belgium[13].

In standalone products, sales of VTech branded products were down. Lower sales of infant and toddler products, the Toot-Toot family of products and the Kidi line offset growth in preschool products, KidiZoom Camera and Switch & Go Dinos. A new range of interactive animal playsets called ZoomiZooz was introduced to the key markets in Europe and was well-received. Sales of LeapFrog standalone products increased, led by rising sales of infant, toddler and preschool products. Bla Bla Blocks® (the name in Europe for LeapBuilders) saw sales decrease.

Platform products recorded sales decreases, as higher sales of LeapFrog products were insufficient to compensate for lower sales of VTech products. In the LeapFrog brand, growth was driven by new product launches, including Magic Adventures Globe, RockIt Twist and LeapStart Go. This offset sales declines in children's educational tablets and the LeapFrog reading system. The sales decline for VTech platform products was led by lower sales of children's educational tablets, KidiZoom Smartwatches and KidiCom Max. Sales of Touch & Learn Activity Desk remained steady.

VTech ELPs won many key awards in Europe during the financial year 2020. KidiZoom Pixi™ was named "Best Electronic Toy" in the "Grand Prix du Jouet 2019" award from *La Revue du Jouet* magazine in France, while the Spanish Association of Toy Manufacturers named KidiZoom Touch 5.0 and Turbo Force® Racers Race Track "Best Toy of the Year 2019" in their respective categories of Electronic Toys and Vehicles, Radio Control and Tracks. In the UK, Learn & Dance Dino™ and KidiZoom Action Cam HD were winners in the "Rainbow Awards for Toy Excellence".

Revenue from TEL products in Europe decreased by 6.0% to US$112.5 million in the financial year 2020. Sales of residential phones continued to decline, offsetting the growth of commercial phones and other telecommunication products.

Residential phones saw sales decline owing to the continued contraction of the fixed-line telephone market and as a result of reduced orders from a number of existing customers.

The sales growth in commercial phones and other telecommunication products was mainly driven by CAT-iq handsets and the CareLine range. Sales of CAT-iq handsets were boosted by addition of a new customer in Germany and the start of shipment to a major telecommunication operator in the UK. The CareLine range saw increased orders from several existing customers. Conference phones also

[13] NPD Group, Retail Tracking Service

recorded modest growth. The VoIP phones, baby monitors and hotel phones businesses were stable, but sales of IADs trended lower, as a customer reduced orders.

CMS revenue in Europe grew by 5.0% to US$440.5 million, with sales increases in the majority of product lines. Hearables benefitted from the good sell-through of existing products and a new project launch at a major customer. The growth of professional audio equipment was supported by a backlog of orders for a major customer being cleared and another customer's new generation of products seeing strong demand. Sales of IoT products, such as internet-connected smart thermostats and air-conditioning controls, grew as a customer shifted all production to VTech. There was also stable demand for smart meters. Medical and health products saw revenues from hearing aids rise following the decision by the customer to allow VTech to manufacture finished products rather than only handle PCB assembly. A new customer in the field of hair removal products added to the growth. Home appliances sales rose as market demand improved from key customers. In communication products, production of network routers for an existing customer was ramped up. Switching mode power supplies, however, registered a sales decline as expected.

Asia Pacific

Group revenue in Asia Pacific increased by 4.3% to US$259.4 million in the financial year 2020, as higher sales of ELPs and CMS offset lower sales of TEL products. The Asia Pacific region accounted for 12.0% of Group revenue.

Revenue from ELPs in Asia Pacific rose by 2.5% to US$83.2 million, led by growth in Australia, Korea and Japan. In Australia, the Group benefitted from broader listings and more shelf space at major retailers, all of which supported strong sell-through for both VTech and LeapFrog branded products. LeapStory™ was named "Electronic Toy of the Year" at the Melbourne Toy Fair in March 2020, organised by the Australian Toy Association. Growth in Korea was driven by higher sales of LeapFrog products, while in Japan the Group benefitted from the relaunch of the VTech brand in a major toy retailer. In mainland China, sales declined owing to the outbreak of COVID-19 in the final quarter of the financial year 2020, resulting in lower sales in offline channels. The Group's footprint in the Asian markets was strengthened by opening a VTech's flagship toy store on Lazada.com in Malaysia.

TEL products revenue in Asia Pacific declined by 21.2% to US$27.9 million, with decreases in most of the region's markets. Sales rose in Hong Kong, driven by increased orders for IADs from an existing customer. In Australia, sales fell as lower sales of residential phones offset higher sales of baby monitors. Sales in Japan were affected by a customer's financial situation, while excess inventory at one customer led to lower sales in Malaysia.

CMS revenue in Asia Pacific increased by 12.3% to US$148.3 million on higher sales of professional audio equipment, which offset declines in medical and health products, home appliances and communication products. Growth in professional audio equipment came from a full year sales contribution from the DJ equipment business, against an eight-month contribution in the financial year 2019. Medical and health products were affected by a decline in orders for diagnostic ultrasound systems while lower orders due to slow market demand resulted in a sales decline for home appliances. Sales of communication products fell as the Group's marine radios customer began a transition to a new generation of products.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, declined by 15.9% to US$30.2 million in financial year 2020. ELPs and TEL products saw sales decreases, while CMS registered growth. Other Regions accounted for 1.4% of Group revenue.

ELPs revenue in Other Regions declined by 6.9% to US$12.1 million. Higher sales in the Middle East were offset by lower sales in Latin America and Africa.

TEL products revenue in Other Regions decreased by 23.5% to US$16.6 million. The decline was attributable to sales decreases in Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US$1.5 million in the financial year 2020, as compared to US$1.2 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 2020, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the 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 half of the Board members are independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

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 2020.

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 before recommending them to the Board for consideration and approval:

– Group's audited consolidated financial statements and reports for the year ended 31 March 2019;
– report from the external auditor for the year ended 31 March 2019;
– corporate governance report setting out the corporate governance practices in the 2019 Annual Report in compliance with the Code;
– Group's unaudited Interim Financial Report for the six months ended 30 September 2019 in the 2019/2020 Interim Report;
– report from the external auditor based on limited agreed-upon procedures on the Group's unaudited Interim Financial Report for the six months ended 30 September 2019 in the 2019/2020 Interim Report;
– corporate governance section setting out the corporate governance policies and practices in the 2019/2020 Interim Report in compliance with the Code;
– accounting principles and practices adopted by the Group;
– re-appointment of the external auditor and its remuneration for the year ended 31 March 2020;
– fee level and nature of non-audit work performed by the external auditor for the year ended 31 March 2019;
– 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;
– 2019 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 Group's audited consolidated financial statements and reports for the year ended 31 March 2020 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 2020 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 in this regard.

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 2020.

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 141,000 Company's shares at a consideration of approximately US$1.2 million.

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

Hong Kong, 18 May 2020

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

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