VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 MARCH 2021

PERFORMANCE HIGHLIGHTS

- Group revenue increased 9.5% to a record US$2,372.3 million
- Profit attributable to shareholders of the Company rose 21.1% to a record US$230.9 million
- Final dividend of US74.0 cents per ordinary share, resulting in a record full-year dividend of US91.0 cents, up 71.7% year-on-year
- Gross profit margin unchanged at 30.6%
- Positive result despite supply chain disruptions in 1H and components shortages in 4Q
- 45th anniversary marked with a sustainability-led strategy and increased focus on digitisation

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 2021 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2021

	Note	**2021 US$ million**	2020 US$ million
Revenue	2	**2,372.3**	2,165.5
Cost of sales		**(1,645.7)**	(1,501.9)
Gross profit		**726.6**	663.6
Other net income	3	**4.2**	5.9
Selling and distribution costs		**(295.5)**	(296.3)
Administrative and other operating expenses		**(82.7)**	(71.8)
Research and development expenses		**(86.4)**	(81.7)
Operating profit	2(b)	**266.2**	219.7
Net finance expense	3	**(7.3)**	(7.4)
Share of results of an associate		**0.4**	-
Profit before taxation	3	**259.3**	212.3
Taxation	4	**(28.4)**	(21.6)
Profit for the year and attributable to shareholders of the Company		**230.9**	190.7
Earnings per share (US cents)	6		
- Basic		**91.6**	75.7
- Diluted		**91.6**	75.7

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2021

	2021 **US$ million**	2020 US$ million
Profit for the year	**230.9**	190.7
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Effect of remeasurement of net assets / obligations on defined benefit scheme, net of deferred tax	**8.0**	(3.7)
	8.0	(3.7)
Items that may be reclassified subsequently to profit or loss:		
Fair value (losses) / gains on hedging, net of deferred tax	**(2.7)**	3.3
Realisation of hedging reserve, net of deferred tax	**(3.3)**	(5.4)
Exchange translation differences	**27.6**	(13.2)
	21.6	(15.3)
Other comprehensive income for the year	**29.6**	(19.0)
Total comprehensive income for the year	**260.5**	171.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2021

	Note	**2021 US$ million**	2020 US$ million
Non-current assets			
Tangible assets	7	**92.2**	76.0
Deposit for acquisition of tangible assets		**-**	1.4
Right-of-use assets		**193.1**	154.8
Intangible assets		**16.8**	17.7
Goodwill		**36.1**	36.1
Interest in an associate		**3.4**	3.0
Investments		**6.8**	8.3
Net assets on defined benefit scheme		**6.9**	-
Deferred tax assets		**10.0**	8.3
		365.3	305.6
Current assets			
Stocks		**414.0**	372.6
Debtors, deposits and prepayments	8	**318.9**	272.1
Taxation recoverable		**3.6**	2.6
Deposits and cash		**343.8**	242.5
		1,080.3	889.8
Current liabilities			
Creditors and accruals	9	**(461.8)**	(390.8)
Provisions for defective goods returns and other liabilities		**(26.4)**	(24.2)
Lease liabilities		**(17.5)**	(17.9)
Taxation payable		**(17.3)**	(9.0)
		(523.0)	(441.9)
Net current assets		**557.3**	447.9
Total assets less current liabilities		**922.6**	753.5
Non-current liabilities			
Net obligations on defined benefit scheme		**-**	(1.8)
Deferred tax liabilities		**(2.9)**	(2.9)
Lease liabilities		**(188.6)**	(147.3)
		(191.5)	(152.0)
Net assets		**731.1**	601.5
Capital and reserves			
Share capital		**12.6**	12.6
Reserves		**718.5**	588.9
Total equity		**731.1**	601.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

	Note	Attributable to shareholders of the Company						
		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 2019		12.6	154.3	(1.5)	(21.5)	5.4	457.7	607.0
Effect of adoption of IFRS 16		-	-	-	-	-	(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		-	-	-	-	-	(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 / 1 April 2020		12.6	156.2	(0.7)	(34.7)	3.3	464.8	601.5
Changes in equity for the year ended 31 March 2021								
Comprehensive income								
Profit for the year		-	-	-	-	-	230.9	230.9
Other comprehensive income								
Fair value losses on hedging, net of deferred tax		-	-	-	-	(2.7)	-	(2.7)
Realisation of hedging reserve, net of deferred tax		-	-	-	-	(3.3)	-	(3.3)
Exchange translation differences		-	-	-	27.6	-	-	27.6
Effect of remeasurement of net assets / obligations on defined benefit scheme, net of deferred tax		-	-	-	-	-	8.0	8.0
Other comprehensive income for the year		-	-	-	27.6	(6.0)	8.0	29.6
Total comprehensive income for the year		-	-	-	27.6	(6.0)	238.9	260.5
Final dividend in respect of the previous year	5	-	-	-	-	-	(90.8)	(90.8)
Interim dividend in respect of the current year	5	-	-	-	-	-	(42.8)	(42.8)
Shares issued under Share Purchase Scheme		-	2.1	(2.1)	-	-	-	-
Shares purchased for Share Purchase Scheme		-	-	(2.3)	-	-	-	(2.3)
Shares lapsed under Share Purchase Scheme		-	-	(0.1)	-	-	0.1	-
Vesting of shares of Share Purchase Scheme		-	-	5.0	-	-	-	5.0
At 31 March 2021		**12.6**	**158.3**	**(0.2)**	**(7.1)**	**(2.7)**	**570.2**	**731.1**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2021

	Note	**2021 US$ million**	2020 US$ million
Operating activities			
Operating profit		**266.2**	219.7
Depreciation of tangible assets	3	**36.6**	37.8
Depreciation of right-of-use assets	3	**21.8**	18.5
Amortisation of intangible assets	3	**0.9**	0.9
Fair value loss / (gain) on investments measured at fair value through profit or loss	3	**1.5**	(5.9)
Loss on disposal of tangible assets	3	**0.1**	0.1
Share-based payment expenses		**5.0**	3.9
Increase in stocks		**(41.4)**	(2.7)
(Increase) / decrease in debtors, deposits and prepayments		**(49.7)**	44.7
Increase / (decrease) in creditors and accruals		**67.5**	(53.1)
Increase / (decrease) in provisions for defective goods returns and other liabilities		**2.2**	(0.7)
Decrease in net assets / increase in net obligations on defined benefit scheme		**0.2**	0.3
Cash generated from operations		**310.9**	263.5
Interest paid		**-**	(1.7)
Interest on lease liabilities		**(7.3)**	(5.7)
Taxes paid		**(23.3)**	(19.1)
Net cash generated from operating activities		**280.3**	237.0
Investing activities			
Purchase of tangible assets		**(48.0)**	(33.2)
Deposit for acquisition of tangible assets		**-**	(1.4)
Proceeds from disposal of tangible assets		**0.2**	0.1
Net cash used in investing activities		**(47.8)**	(34.5)
Financing activities			
Capital element of lease rentals paid		**(19.8)**	(17.1)
Payment for shares acquired for Share Purchase Scheme		**(2.3)**	(1.2)
Dividends paid	5	**(133.6)**	(168.7)
Net cash used in financing activities		**(155.7)**	(187.0)
Effect of exchange rate changes		**24.5**	(10.0)
Increase in cash and cash equivalents		**101.3**	5.5
Cash and cash equivalents at 1 April		**242.5**	237.0
Cash and cash equivalents at 31 March		**343.8**	242.5

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 2021. 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").

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group:

- Amendment to IFRS 3, *Definition of a business*
- Amendment to IFRS 16, *COVID-19-related rent concessions*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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 2021

	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions US$ million	Total US$ million
Electronic Learning Products	**536.9**	**351.2**	**82.0**	**8.4**	**978.5**
Telecommunication Products	**270.5**	**109.3**	**31.7**	**13.8**	**425.3**
Contract Manufacturing Services	**187.7**	**625.8**	**154.7**	**0.3**	**968.5**
Total	**995.1**	**1,086.3**	**268.4**	**22.5**	**2,372.3**

2. Revenue and Segment Information *(Continued)*

(a) Revenue *(Continued)*

Disaggregation of revenue *(Continued)*

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

The Group's customer base is diversified and include three (2020: two) customers with whom transactions have exceeded 10% of the Group's revenue. The revenue from these three customers accounted for approximately 15%, 12% and 12% of the Group's revenue for the year ended 31 March 2021 respectively. For the year ended 31 March 2020, approximately 12% and 10% of the Group's revenue are derived from two external customers. Such revenue is attributable to the North America segment.

(b) Segment Information

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

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

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

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

All of these products are manufactured in the Group's manufacturing facilities located in the People's Republic of China ("PRC") and Malaysia under the Asia Pacific segment.

2. Revenue and Segment Information *(Continued)*

(b) Segment Information *(Continued)*

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

(i) Segment revenues and results

Revenue is allocated to the reportable 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.

Year ended 31 March 2021

	North America US$ million	**Europe US$ million**	**Asia Pacific US$ million**	**Other Regions US$ million**	**Total US$ million**
Reportable segment revenue	**995.1**	**1,086.3**	**268.4**	**22.5**	**2,372.3**
Reportable segment profit	**137.7**	**80.0**	**44.4**	**4.1**	**266.2**
Depreciation and amortisation	**3.4**	**3.2**	**52.7**	**-**	**59.3**
Reportable segment assets	**180.1**	**103.6**	**1,085.2**	**-**	**1,368.9**
Reportable segment liabilities	**(83.7)**	**(36.7)**	**(573.9)**	**-**	**(694.3)**

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)

2. Revenue and Segment Information *(Continued)*

(c) Reconciliations of reportable segment assets and liabilities

	2021 **US$ million**	2020 US$ million
Assets		
Reportable segment assets	**1,368.9**	1,119.4
Intangible assets	**16.8**	17.7
Goodwill	**36.1**	36.1
Interest in an associate	**3.4**	3.0
Investments	**6.8**	8.3
Taxation recoverable	**3.6**	2.6
Deferred tax assets	**10.0**	8.3
Consolidated total assets	**1,445.6**	1,195.4
Liabilities		
Reportable segment liabilities	**(694.3)**	(582.0)
Taxation payable	**(17.3)**	(9.0)
Deferred tax liabilities	**(2.9)**	(2.9)
Consolidated total liabilities	**(714.5)**	(593.9)

3. Profit before taxation

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

	2021 **US$ million**	2020 US$ million
Fair value loss / (gain) on investments measured at fair value through profit or loss *(Note (i))*	**1.5**	(5.9)
Government subsidies *(Notes (i) & (ii))*	**(5.7)**	-
Depreciation of tangible assets	**36.6**	37.8
Depreciation of right-of-use assets	**21.8**	18.5
Amortisation of intangible assets	**0.9**	0.9
Loss on disposal of tangible assets	**0.1**	0.1
Interest on lease liabilities *(Note (iii))*	**7.3**	5.7
Other interest expenses, net *(Note (iii))*	**-**	1.7
Net foreign exchange (gain) / loss	**(0.6)**	0.2
Net (gain) / loss on forward foreign exchange contracts		
- Net gain on cash flow hedging instruments reclassified from equity	**(3.6)**	(5.9)
- Net loss / (gain) on forward foreign exchange contracts	**1.2**	(1.1)

Notes:

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

(ii) This represented employment subsidies received from various governments in response to the outbreak of COVID-19.

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

4. Taxation

	2021	2020
	US$ million	US$ million
Current tax		
- Hong Kong	**20.9**	13.8
- Overseas	**9.9**	8.2
(Over) / under -provision in respect of prior years		
- Hong Kong	**-**	0.1
- Overseas	**(0.3)**	(0.6)
Deferred tax		
- Origination and reversal of temporary differences	**(2.1)**	0.1
	28.4	21.6

	2021	2020
	US$ million	US$ million
Current tax	**30.5**	21.5
Deferred tax	**(2.1)**	0.1
	28.4	21.6

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits 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

	2021	2020
	US$ million	US$ million
Interim dividend of US17.0 cents (2020: US17.0 cents) per share declared and paid	**42.8**	42.8
Final dividend of US74.0 cents (2020: US36.0 cents) per share proposed after the end of the reporting period	**186.6**	90.8

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

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$230.9 million (2020: US$190.7 million).

The calculation of basic earnings per share is based on the weighted average of 252.0 million (2020: 251.8 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 2021 was based on 252.0 million ordinary shares (2020: 251.8 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. Tangible Assets

During the year ended 31 March 2021, the Group acquired items of tangible assets with a cost of US$49.4 million (2020: US$33.2 million), including land and building of a manufacturing facility in Penang, Malaysia.

8. Debtors, deposits and prepayments

At 31 March 2021, total debtors, deposits and prepayments of US$318.9 million (31 March 2020: US$272.1 million) included net trade debtors of US$270.7 million (31 March 2020: US$221.5 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:

	2021 **US$ million**	2020 US$ million
0-30 days	**178.3**	141.2
31-60 days	**58.9**	48.1
61-90 days	**25.7**	23.1
>90 days	**7.8**	9.1
Total	**270.7**	221.5

The majority of the Group's sales are on letters of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

9. Creditors and accruals

At 31 March 2021, total creditors and accruals of US$461.8 million (31 March 2020: US$390.8 million) included trade creditors of US$236.7 million (31 March 2020: US$195.4 million).

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

	2021 **US$ million**	2020 US$ million
0-30 days	**104.2**	66.6
31-60 days	**47.7**	36.0
61-90 days	**58.6**	44.1
>90 days	**26.2**	48.7
Total	**236.7**	195.4

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 2021 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 US74.0 cents per ordinary share in respect of the year ended 31 March 2021, payable on 28 July 2021 to the shareholders whose names appear on the register of members of the Company as at the close of business on 19 July 2021 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on 13 July 2021 (the "2021 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 15 July 2021.

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 2021 AGM, the register of members of the Company will be closed from 8 July 2021 to 13 July 2021 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend and vote at the 2021 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 7 July 2021.

(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 19 July 2021, 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 16 July 2021.

LETTER TO SHAREHOLDERS

In the financial year 2021 VTech delivered record revenue and profit, as the Group's businesses benefited from work-from-home and stay-at-home orders during the coronavirus (COVID-19) pandemic. All three product lines reported revenue growth, while profitability was further supported by effective cost control. The positive result came despite global supply chain disruptions during the first half and increasing shortages of semiconductors and other electronic components in the final quarter.

Results and Dividend

Group revenue for the financial year ended 31 March 2021 increased by 9.5% to US$2,372.3 million, as higher sales in North America, Europe and Asia Pacific offset lower sales in Other Regions.

Profit attributable to shareholders of the Company rose by 21.1% to US$230.9 million. This was mainly attributable to higher revenue and lower operating expenses as a percentage of Group sales.

Basic earnings per share increased by 21.0% to US91.6 cents, compared to US75.7 cents in the previous financial year.

A final dividend of US74.0 cents per ordinary share has been proposed by the Board to shareholders, providing a full-year dividend of US91.0 cents per ordinary share, a 71.7% increase from the US53.0 cents declared in the previous financial year. This represents a dividend payout ratio of 99.4%.

Costs

The Group's gross profit margin in the financial year 2021 was 30.6%, unchanged year-on-year. The lower-than-expected gross profit margin was attributable to a marked increase in materials prices in the fourth quarter of the financial year, a change in product mix, rising freight costs and higher direct labour costs. These increases offset lower manufacturing overheads and a further improvement in productivity for the full financial year.

Manufacturing Footprint

The Group's strategy to expand its manufacturing base took a strategic step forward during the year with the acquisition of a production facility in Tecate, Mexico for professional loudspeakers. The acquisition of QSC, LLC's Mexican manufacturing facility, which was funded through internal resources, was completed on 1 April 2021. It not only adds a new product category to VTech's contract manufacturing services (CMS) business, but also establishes a manufacturing base outside Asia, helping the business to serve its customers better.

Our Businesses

Despite disruptions to markets and supply chains in early 2020, overall, the pandemic has had a positive effect on demand for the Group's products, many of which are geared towards supporting adults working from home and children spending more time learning and playing at home. Online sales grew especially strongly, rising to account for 15.2% of Group revenue.

Electronic learning products (ELPs) achieved higher revenue, as gains in North America and Europe offset declines in Asia Pacific and Other Regions. In the calendar year 2020, the Group was the number one supplier of electronic learning toys from infancy through toddler and preschool globally[1&2]. In North America, VTech strengthened its leadership as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US and Canada[3]. In Europe, the Group remained the number one infant and toddler toy manufacturer in France, the UK, Germany and the Benelux countries[4].

Sales were boosted by a marked positive change in product mix. Products carrying higher average selling prices such as tablets, the VTech Touch & Learn Activity Desk™ and the LeapStart® reading systems, outperformed across all markets. Products with overt educational values such as the LeapFrog Learning Friends® 100 Words Book™ series also sold especially well. There was a significant increase in subscriptions to the LeapFrog Academy™. The success on Netflix of seasons 1, 2 and 3 of the Go! Go! Cory Carson® animation series drove sales of the associated playsets and vehicles. In the financial year 2021, sales of standalone and platform products accounted for 82% and 18% of total ELPs sales respectively.

Telecommunication (TEL) products saw a return to growth after several years of sales decline. Changing work and living patterns in response to COVID-19 resulted in an uptick in the US residential phone market, leading to higher sales of this product category. The growth was supported by market share gains, a strong increase in online sales and good momentum in other telecommunication products.

The Group's residential phones, sold under the VTech and AT&T brands, achieved higher sales, with the super-long-range and Connect-to-Cell™ phone system performing especially well. VTech also gained market share as the residential phones market consolidated further. In the financial year 2021, VTech remained the number one manufacturer of residential phones in the US[5]. Other telecommunication products, including baby monitors, the CareLine™ range of residential phones, CAT-iq (Cordless Advanced Technology - internet and quality) handsets and integrated access devices (IADs) also saw higher sales as consumers spent more on home connectivity.

The commercial phones, comprising small-to-medium sized business (SMB) phones, hotel phones and conference phones, fared less well, as both travel and business activities experienced a severe decline, resulting in much lower demand. This offset higher sales of headsets, which benefited from the work-from-home trend. In the financial year 2021, commercial phones and other telecommunication products represented 49% of total TEL products revenue, largely unchanged from the previous financial year.

Source:

1 Ranking based on The NPD Group Retail Tracking Service for Projected US Dollar Sales in the US, Canada, France, Germany, the UK, Belgium, Netherlands, Australia and Spain 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 2020

2 Global Market Share Estimates by MarketWise Consumer Insights, LLC. 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 2020

3 The NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, toddler figure and playset, walker, electronic entertainment (excluding tablets) and preschool electronic learning for the calendar year ending December 2020

4 The NPD Group, Retail Tracking Service

5 MarketWise Consumer Insights, LLC, April 2020 – March 2021

CMS, which experienced a fall in revenue in the first half of the financial year 2021, had a very strong rebound in the second half, resulting in higher revenue for the full year. This marks the 19th consecutive year of growth and testifies to its ability to deliver the level of service that customers want.

Sales increases at CMS were driven by items catering to the work-from-home and stay-at-home environment, including headsets, professional audio equipment for home use, Wi-Fi routers and health and beauty products.

CMS' New Product Introduction centre opened in Shenzhen in December 2020. The facility offers design optimisation and engineering services to start-ups worldwide, including those in the Greater Bay region of mainland China, the country's technology hub centred on Shenzhen. It is now working to develop businesses in cooperation with a number of organisations in the region, including the Hong Kong Science and Technology Parks Corporation's iDM2 and the e-Hub at Qian Hai.

Towards a Sustainable Future

With the COVID-19 pandemic continuing to affect lives around the world, VTech's top priority has been to protect the health and safety of its employees while fulfilling orders. This has meant ensuring a safe working environment at its locations worldwide, in line with government and World Health Organisation recommendations. VTech and its employees have also been supporting children and local communities with financial donations, free online learning, as well as gifts of educational toys, phones and baby monitors.

Looking to the future, last year, VTech set out its pledge to replace fossil-based plastic in all its ELPs with sustainable alternatives by 2030. Later this year, the Group will take an important first step towards this target with the roll-out of a number of eco-friendly ELPs made from plant-based and reclaimed plastics. A new wooden toy line, made with material sourced from responsibly managed forest certified by the Forest Stewardship Council, will also be launched. These innovations represent a significant start to the next phase of the Group's effort to build a better future for the children of today and tomorrow.

Outlook

The Group's revenue for the financial year 2022 is hard to predict. All of its product lines have a solid order book, but despite the Group's best efforts, the fluid situation in global material supplies may affect its ability to meet demand. Currently, there is a general shortage of electronic components worldwide, in particular of semiconductors and LCD (Liquid Crystal Display) screens. Foundries are struggling to meet a huge increase in demand and not only are lead times much longer, but order fulfilment is erratic. Despite long-term relationships with suppliers and their full support, some of the Group's confirmed orders are not being fulfilled on time. This uncertainty in the supply chain could limit VTech's ability to meet orders.

Gross profit margin, meanwhile, is expected to decline. It will be impacted by higher materials prices owing to tight supply, rising freight costs and a stronger Renminbi. VTech has taken steps to mitigate the effects through diversifying sources of supply, re-engineering products, negotiating new shipping contracts and price increases.

For ELPs, the Group will focus on maintaining its positive momentum through new product launches globally and a return to growth in Asia Pacific.

Platform products will benefit from the launch of new versions of KidiZoom® Smartwatch, KidiBuzz™ and Touch & Learn Activity Desk under the VTech brand, while LeapFrog will introduce a refreshed LeapStart reading system.

In standalone products, VTech will see additions to the core infant, toddler and preschool ranges, expansions to the KidiZoom Camera and Kidi lines, and the launch of Marble Rush™, an easy to construct modular marble run that allows children to build countless configurations. The LeapFrog brand will introduce more items to its popular Blue's Clues & You!™ line, led by Story Time with Blue. The Learning Friends 100 Words Book series, will be augmented by the addition of 100 Words About Places I Go™. These will hit the market alongside LeapLand Adventures™, a TV learning game, the new eco-friendly toys line-up and a series of new role-play toys. The Go! Go! Cory Carson line will be expanded with new models and new content on Netflix.

In Asia Pacific, sales in mainland China are expected to resume growth following a renewed focus on channel management and e-commerce. This will be supported by new product launches, including a new line of Switch & Go Dinos® based on a popular animation series called Mini Force. In Malaysia, to augment its Lazada.com flagship store, the Group has opened its second VTech official online store on Shopee, boosting sales in the country. The Group also plans to open additional online stores on different e-commerce platforms in other South East Asian countries.

In TEL products, VTech aims to launch new products that cater to the continued demand for residential phones and other telecommunication products, as well as a recovery in the commercial phones market.

Sales of residential phones will benefit from the introduction of a series of new products, notably a new premium work-from-home desktop cordless telephone with 5-inch colour display that will be introduced in the second quarter of the financial year 2022. Other telecommunication products will see the launch of Wi-Fi 6 IADs in the first quarter. These provide enhanced performance as compared with the existing products and support dual Wide Area Network connection through 4G LTE (Long Term Evolution). The category will be augmented by a smart Wi-Fi baby monitor under the LeapFrog brand, incorporating health monitoring and baby care app features. In commercial offerings, a new range of Snom products targeting work-from-anywhere users will be launched in the second quarter, driving recovery for the business sector. The consolidation of the hospitality sector, meanwhile, will allow VTech to gain market share, boosted by sales of a new series of handsets. Designed for modern hotel guest rooms, the stylishly slim handsets with elegant colour display come with a compact VoIP (Voice over Internet Protocol) or analog base system and can be mounted anywhere in a guest room.

Although the CMS business is seeing increased demand in most product categories, its ability to meet orders may be impacted by the critical situation in global material supplies. The Group is working closely with customers and suppliers to deal with the issues that arise. The new manufacturing facility in Tecate, Mexico will contribute to CMS revenue in the financial year 2022 through producing QSC branded professional loudspeakers. Utilisation of the facility will rise gradually, as new customers are added. The production capacity of the facility in Muar, Malaysia will be increased, as more existing customers wish to maintain dual manufacturing sites as a contingency.

45th Anniversary

I wish to thank my fellow directors for their counsel, and management and all our colleagues for the hard work they have put in to make it a successful year despite the difficult circumstances. My sincere thanks also go to our customers and suppliers, who have worked with us to overcome the challenges thrown up by the pandemic.

The year 2021 marks the 45th year since VTech's founding. In this time, we have grown from a small Hong Kong enterprise to an ever more global company, operating sales and marketing offices, manufacturing and R&D facilities around the world with innovative products that sell in over 80 countries and regions.

The strong results we have announced for the financial year 2021 testify to the strength of VTech's business model, based on product innovation, market share gains, geographic expansion and operational excellence. We have a diverse product mix, fully integrated operations and a proven ability to bring innovative products to market consistently. This has given us a growing presence around the world and leadership in many product categories.

The pandemic is accelerating changes in the online-to-offline environment and consumer behaviour. Our brands, technological capabilities, manufacturing know-how and fully integrated operations have put us ahead of this trend and we will continue to benefit from this as we execute our sustainability-led strategy. We are integrating sustainability into all aspects of our business operations, while at the same time putting increasing focus on digitisation, leveraging the insights from our huge customer base, from design through to manufacturing, from marketing through to after-sales service. I am therefore confident that VTech will continue to deliver value to shareholders for decades to come.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the year ended 31 March 2021

	2021 **US$ million**	2020 US$ million	Change US$ million
Revenue	**2,372.3**	2,165.5	206.8
Gross profit	**726.6**	663.6	63.0
Gross profit margin	**30.6%**	30.6%	
Other net income	**4.2**	5.9	(1.7)
Total operating expenses	**(464.6)**	(449.8)	(14.8)
Total operating expenses as a percentage of revenue	**19.6%**	20.8%	
Operating profit	**266.2**	219.7	46.5
Operating profit margin	**11.2%**	10.1%	
Net finance expense	**(7.3)**	(7.4)	0.1
Share of results of an associate	**0.4**	-	0.4
Profit before taxation	**259.3**	212.3	47.0
Taxation	**(28.4)**	(21.6)	(6.8)
Effective tax rate	**11.0%**	10.2%	
Profit for the year and attributable to shareholders of the Company	**230.9**	190.7	40.2
Net profit margin	**9.7%**	8.8%	

Revenue

Group revenue for the year ended 31 March 2021 increased by 9.5% to US$2,372.3 million compared with the previous financial year. The increase in revenue was largely driven by the higher sales in North America, Europe and Asia Pacific, which offset the decrease in revenue in Other Regions.

	2021		2020		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**995.1**	**41.9%**	989.6	45.7%	5.5	0.6%
Europe	**1,086.3**	**45.8%**	886.3	40.9%	200.0	22.6%
Asia Pacific	**268.4**	**11.3%**	259.4	12.0%	9.0	3.5%
Other Regions	**22.5**	**1.0%**	30.2	1.4%	(7.7)	(25.5%)
	2,372.3	**100.0%**	2,165.5	100.0%	206.8	9.5%

Gross Profit/Margin

Gross profit for the financial year 2021 was US$726.6 million, an increase of US$63.0 million or 9.5% compared to the US$663.6 million recorded in the previous financial year. Gross profit margin for the year was 30.6%, same as the previous financial year. The increase in material prices in the fourth quarter of the financial year, change in product mix, higher direct labour costs and rising freight charges, offset the lower manufacturing overheads and the benefits from further productivity gains.

Operating Profit/Margin

Operating profit for the year ended 31 March 2021 was US$266.2 million, an increase of US$46.5 million or 21.2% compared with the previous financial year. Operating profit margin also increased from 10.1% to 11.2%. The improvement in both operating profit and operating profit margin was mainly due to the increase in gross profit, which offset the increase in total operating expenses. Operating profit for the financial year 2021 also included a fair value loss of US$1.5 million on an investment in a company that designs and distributes integrated circuit products as compared with a fair value gain of US$5.9 million in the same period last year. Government subsidies of US$5.7 million received from various countries in response to COVID-19 were also recorded in the current financial year.

Total operating expenses were US$464.6 million, an increase of 3.3% compared with the last financial year. Nevertheless, total operating expenses as a percentage of Group revenue dropped from 20.8% to 19.6%.

Selling and distribution costs decreased from US$296.3 million to US$295.5 million compared with the same period last year. It was mainly attributable to the decreased spending on advertising and promotional activities by the Group during the financial year. As a percentage of Group revenue, selling and distribution costs also decreased from 13.7% to 12.5%.

Administrative and other operating expenses increased from US$71.8 million to US$82.7 million compared with the same period last year. It was mainly due to the increase in employee related costs. The net exchange gain arising from the Group's global operations in the ordinary course of business was US$0.6 million, as compared with the net exchange loss of US$0.2 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.3% to 3.5%.

During the financial year 2021, the research and development expenses were US$86.4 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 decreased from 3.8% to 3.6%.

TAXATION

Taxation charges increased from US$21.6 million in the last financial year to US$28.4 million in the financial year 2021. The effective tax rate also increased from 10.2% to 11.0% as the Group recorded a fair value gain of US$5.9 million in the last financial year on an investment which was not subject to tax. In addition, the Group received a tax refund relating to its US operation in the last financial year.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2021 was US$230.9 million, an increase of US$40.2 million or 21.1% as compared to the last financial year. Net profit margin also increased from 8.8% to 9.7%.

Basic earnings per share for the year ended 31 March 2021 were US91.6 cents as compared to US75.7 cents in the previous financial year.

Dividends

During the financial year 2021, the Group declared and paid an interim dividend of US17.0 cents per share, which aggregated to US$42.8 million. The Directors have proposed a Final Dividend of US74.0 cents per share, which is estimated to be US186.6 million.

Liquidity and Financial Resources

Shareholders' funds as at 31 March 2021 were US$731.1 million, an increase of 21.5% from US$601.5 million in the last financial year. Shareholders' funds per share increased by 21.3% from US$2.39 to US$2.90.

The Group had no borrowings as at 31 March 2021 and 31 March 2020.

The Group's financial resources remain strong. As at 31 March 2021, the Group had net cash of US$343.8 million, an increase of 41.8% as compared to US$242.5 million as of 31 March 2020. It was mainly due to the increase in cash generated from operating activities, lower dividend payment and the favourable foreign currency exchange movements on the Group's net assets as a result of the appreciation in foreign currencies against United States Dollar during the financial year.

Analysis of Cash Flow from Operations

	2021 US$ million	2020 US$ million	Change US$ million
Operating profit	**266.2**	219.7	46.5
Depreciation and amortisation	**59.3**	57.2	2.1
EBITDA	**325.5**	276.9	48.6
Loss on disposal of tangible assets	**0.1**	0.1	-
Fair value loss / (gain) on investments	**1.5**	(5.9)	7.4
Share-based payment expenses	**5.0**	3.9	1.1
Working capital change	**(21.2)**	(11.5)	(9.7)
Cash generated from operations	**310.9**	263.5	47.4

The Group's cash generated from operations for the year ended 31 March 2021 was US$310.9 million, as compared to US$263.5 million in the previous financial year. The increase was mainly attributable to the higher EBITDA compared with the previous financial year, which offset the increase in working capital in the financial year 2021.

Working Capital Change

	Balance as at 31 March 2020 US$ million	Hedging and others US$ million	Working capital change per cash flow US$ million	**Balance as at 31 March 2021 US$ million**
Stocks	372.6	-	41.4	**414.0**
Trade debtors	221.5	-	49.2	**270.7**
Other debtors, deposits and prepayments	50.6	(2.9)	0.5	**48.2**
Trade creditors	(195.4)	-	(41.3)	**(236.7)**
Other creditors and accruals	(195.4)	(3.5)	(26.2)	**(225.1)**
Provisions for defective goods returns and other liabilities	(24.2)	-	(2.2)	**(26.4)**
Net (obligations)/assets on defined benefit scheme	(1.8)	8.9	(0.2)	**6.9**
Total working capital	227.9	2.5	21.2	**251.6**

Stocks as of 31 March 2021 were US$414.0 million, increased from US$372.6 million as of 31 March 2020. The turnover days also increased from 102 days to 103 days. The higher stock level was largely due to the increased demand for the Group's product in the first quarter of the financial year 2022 and stock-up of raw materials in view of the unstable supply for the Group's products.

As at 31 March 2021 and 2020
All figures are in US$ million unless stated otherwise

	2021	2020
Stocks	**414.0**	372.6
Average stocks as a percentage of Group revenue	**16.6%**	17.1%
Turnover days	**103 days**	102 days

Trade debtors as of 31 March 2021 were US$270.7 million, increased from US$221.5 million as of 31 March 2020. Debtor turnover days decreased from 63 days to 61 days. The higher trade debtor balance as at 31 March 2021 was mainly due to increase in revenue in the fourth quarter of the financial year 2021 compared with the corresponding period of the previous financial year. The overdue balances greater than 30 days accounted for 1.3% of the gross trade debtors as of 31 March 2021.

As at 31 March 2021 and 2020 All figures are in US$ million unless stated otherwise	**2021**	2020
Trade debtors	**270.7**	221.5
Average trade debtors as a percentage of Group revenue	**10.4%**	11.2%
Turnover days	**61 days**	63 days

Other debtors, deposits and prepayments as of 31 March 2021 were US$48.2 million, decreased from US$50.6 million as of 31 March 2020. It was mainly attributable to the decrease in fair value gain on forward foreign exchange contracts in the financial year 2021.

Trade creditors as of 31 March 2021 were US$236.7 million, as compared to US$195.4 million as of 31 March 2020. Creditor turnover days decreased from 93 days to 79 days.

As at 31 March 2021 and 2020 All figures are in US$ million unless stated otherwise	**2021**	2020
Trade creditors	**236.7**	195.4
Turnover days	**79 days**	93 days

Other creditors and accruals as of 31 March 2021 were US$225.1 million, increased from US$195.4 million as of 31 March 2020. It was largely attributable to the increase of fair value losses on forward foreign exchange contracts and the increase in accruals of employee related costs, advertising expenses and other allowances to customers.

Provisions for defective goods returns and other liabilities as of 31 March 2021 were US$26.4 million, as compared to US$24.2 million as of 31 March 2020.

Net assets on defined benefit scheme as of 31 March 2021 were US$6.9 million, as compared to net obligations on defined benefit scheme of US$1.8 million as of 31 March 2020. The increase was mainly due to the re-measurement of net liability 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 2021, the Group invested US$49.4 million in the purchase of tangible assets including land and buildings, machinery and equipment, leasehold improvements, office equipment, as well as the improvement of manufacturing working environment. This also included capital expenditure for the expansion of manufacturing capacity in Malaysia.

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

All of these capital expenditures were financed from internal resources.

Capital Commitments and Contingencies

Capital commitments in the financial year 2022 for ongoing business operations are expected to be US$49.0 million.

All of these capital commitments 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 2021 was around 25,300, compared to 26,000 in the previous financial year. Staff related costs for the year ended 31 March 2021 were approximately US$370 million, as compared to approximately US$353 million in the financial year 2020.

Review of Operations

North America

Group revenue in North America rose by 0.6% to US$995.1 million in the financial year 2021 as higher sales of ELPs and TEL products offset lower CMS sales. North America became VTech's second largest market, accounting for 41.9% of Group revenue.

ELPs revenue in North America increased by 8.8% to US$536.9 million, with good growth in Canada. The overall market grew, while VTech's sales to online retailers achieved a double-digit increase. The Group also gained market share and strengthened its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[6]. In Canada, VTech strengthened its leadership further and remained the number one supplier in the infant, toddler and preschool toys category[7].

Standalone products performed well, with the pandemic spurring demand for electronic learning toys, as parents and children spend more time at home.

Growth in standalone products came from higher sales of both LeapFrog and VTech brands. The LeapFrog sales increase was especially robust. Preschool items offering overt educational values, including Learning Friends 100 Words Book, 100 Animals Book™ and 2-in-1 LeapTop Touch™, achieved strong sell-through. The Blue's Clues & You! series of licensed products performed strongly, with the Really Smart Handy Dandy Notebook selling particularly well. Sales of LeapBuilders®, however, registered a decline.

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[6] The NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, toddler figure and playset, walker, electronic entertainment (excluding tablets) and preschool electronic learning for the 12 months ended December 2020

[7] The NPD Group, Retail Tracking Service

VTech standalone products benefited from rising sales of infant and toddler products, KidiZoom cameras, other Kidi line products and the Go! Go! Smart family of products. These increases offset a decline in preschool products. There were innovative additions to the product line-up during the period. Go! Go! Smart Wheels® saw the launch of Ultimate Corkscrew Tower™. Building on the success of the popular robotic toy Myla the Magical Unicorn™, VTech launched Myla's Sparkling Friends™, a line of toys that brings colour play to life using fantastical characters. Go! Go! Cory Carson vehicles and playsets also contributed to sales in the financial year 2021, supporting growth. Seasons 1, 2 and 3 of the associated animation series are now streaming globally on Netflix.

Sales of platform products in North America decreased slightly. At VTech, platform products saw sales decline, as higher sales of Touch & Learn Activity Desk were insufficient to compensate for lower sales of KidiZoom Smartwatches and KidiBuzz. For LeapFrog, the platform products business posted an overall decline. The brand's children's educational tablets and Magic Adventures Globe™ saw sales increases, offsetting declines in interactive reading systems and RockIt Twist™. Subscriptions to the LeapFrog Academy increased substantially during the financial year 2021.

During the 12 months, the Group's ELPs garnered many awards from toy and parenting industry experts, key retailers and toy advisory boards. In addition to those announced at the interim results in November 2020, VTech and LeapFrog branded ELPs scooped multiple "Seal of Approval (Holiday 2020)" awards given by the National Parenting Center, numerous Mom's Choice Awards "Gold Awards" and many citations in The National Parenting Product Awards (NAPPA). Three VTech products, namely Go! Go! Smart Wheels Ultimate Corkscrew Tower, Helping Heroes Fire Station™ and KidiZoom Creator Cam were finalists in the Toy Association's "2021 Toy of the Year (TOTY) Awards". For the third year in a row, KidiZoom Smartwatch was the number one selling item in the Youth Electronics Supercategory in the US from the NPD Group, where it was also the top selling toy in the individual class of Electronic Entertainment[8].

TEL products revenue in North America saw a 10.9% rise to US$270.5 million. The growth was driven by higher sales of residential phones, commercial phones and other telecommunication products. Sales to online retailers saw a strong increase.

The residential phones market in North America, which had been on a downward trend, saw an uptick during the financial year 2021. Consumers sought to replace and upgrade their fixed-line telephones as working from home became the norm. Both AT&T and VTech branded phones recorded sales increases, with super-long-range and Connect-to-Cell models performing especially well. In the financial year 2021, VTech strengthened its leadership position in the US residential phones market[9].

The best performers among commercial phones and other telecommunication products in North America were also products geared to staying at home. Baby monitors performed especially well, boosted by strong demand for the new series of VTech 1080p High Definition Smart Wi-Fi baby monitors. As a result, VTech baby monitors strengthened their position as the number one brand in the US and Canada[10]. Headsets and the CareLine range of residential phones also achieved higher sales. In contrast, SMB phones, hotel phones and conference phones reported lower sales as they were all affected by the steep fall in business activity and travel. These decreases offset an increase in sales of VoIP phones.

[8] The NPD Group, Retail Tracking Service, US, January – December 2020, USD
[9] MarketWise Consumer Insights, LLC, April 2020 – March 2021
[10] The NPD Group Inc., Retail Tracking Service, US & Canada, Baby Monitors, April 2020 – March 2021 combined vs April 2019 – March 2020 combined

Despite the pandemic, VTech continued to introduce new commercial phones products. In December 2020, the Group launched a powerful expansion module for its Snom's IP desk phones with a customisable large colour display that enhances functionality. In January 2021, a new series of designer hotel phones offering flexible installation was launched.

CMS revenue in North America fell by 25.5% to US$187.7 million. All product categories posted lower sales. Demand for commercial professional audio products fell steeply as COVID-19 measures restricted large public gatherings in venues such as churches and concert halls. This was compounded by one major customer experiencing an over-inventory issue. These factors contributed to sales decrease in this segment, offsetting an increase in demand for professional audio equipment for home use. Sales of industrial products declined on lower orders for coin and note recognition machines. Solid-state lighting saw a sales decline as project-based bidding activity fell sharply due to the pandemic. Medical and health products saw lower orders of hearing aids, as sales activities were significantly affected by the COVID-19 restrictions. Communication products recorded a sales decline as customers phased out their product ranges.

Europe

Group revenue in Europe rose by 22.6% to US$1,086.3 million in the financial year 2021, as higher sales of ELPs and CMS offset lower revenue of TEL products. Europe was VTech's largest market, accounting for 45.8% of Group revenue.

ELPs revenue in Europe increased by 5.4% to US$351.2 million. Growth slowed down in the second half, however, as lockdowns in the region forced the closure of stores selling non-essential items. Geographically, sales increased in France, the UK, Germany and the Netherlands, while Spain experienced a decline. In the calendar year 2020, VTech remained the number one infant and toddler toy manufacturer in France, the UK, Germany and the Benelux countries[11].

In standalone products, both the VTech and LeapFrog brands achieved higher sales. For the VTech brand, growth was led by electronic learning aids, KidiZoom cameras, other Kidi line products and Switch & Go Dinos. This offset declines in the Toot-Toot family of products. Sales of infant, toddler and preschool products were largely stable during the financial year 2021. The new Go! Go! Cory Carson vehicles and playsets were rolled out to the major European markets in September 2020 under the name Toot-Toot Cory Carson®, which supported the growth in standalone products. LeapFrog saw rising sales of infant, toddler and preschool products, with strong sell-through of Learning Friends 100 Words Book and 100 Animals Book. This offset a decline for LeapBuilders/Bla Bla Blocks®.

Platform products saw lower sales, as growth of LeapFrog branded products was insufficient to offset a decline in VTech branded products. For LeapFrog, the revenue increase was driven by higher sales of Magic Adventures Globe and interactive reading systems, which offset declines in RockIt Twist and children's educational tablets. At VTech, higher sales of Touch & Learn Activity Desk were unable to offset lower sales of children's educational tablets and KidiCom™ Max. Sales of KidiZoom Smartwatches remained steady year-on-year.

[11] The NPD Group, Retail Tracking Service

In the financial year 2021, Speak & Learn Puppy™ and KidiZoom Video Studio HD were named "Best Infant Toy" and "Best High Tech Toy" respectively, in the "Grand Prix du Jouet 2020" awards given by *La Revue du Jouet* magazine in France. KidiZoom Video Studio HD was named "Toy of the Year 2020" by the Belgian Federation of Toys, while in Spain, Speak & Learn Puppy was named "Best Toy of the Year 2020 (Early Childhood and Preschool Category)" by the Spanish Association of Toy Manufacturers. In the UK, both KidiZoom Studio and Splashtime Submarine won "Creative Play Awards 2020" from *Creative Steps* magazine.

Revenue from TEL products in Europe fell by 2.8% to US$109.3 million. Higher sales of commercial phones and other telecommunication products were insufficient to offset lower sales of residential phones.

In Europe, the Group sells residential phones to major telephone companies in the region on an original design manufacturing basis. The sales decrease was due to lower orders from an existing customer.

Sales of commercial phones and other telecommunication products increased. Stay-at-home restrictions benefited sales of CAT-iq handsets, the CareLine range of residential phones, IADs and headsets, as consumers sought to upgrade their communication devices. Baby monitors saw sales decline, however, as a major customer reduced orders. The cancellation of trade shows and a slowdown in business activities also resulted in lower orders for VoIP phones, conference phones and hotel phones. This was despite a gradual pick-up in the second half as some business activities resumed.

In the UK, in addition to three top awards from *Loved by Parents* magazine, VTech's 1080p 7-inch Smart Wi-Fi baby monitor was named "Best Baby Monitor 2021 – Gold Winner" in the Mother & Baby Awards.

CMS revenue in Europe rose strongly by 42.1% to US$625.8 million. Hearables, medical and health products, home appliances, communication products and automotive related products saw higher sales, offsetting declines in professional audio equipment, IoT (Internet-of-Things) products and switching mode power supplies.

Hearables recorded the strongest growth, with demand for headsets boosted by the need to work from home. Orders for these products were also buoyed by a customer moving production of its new version of a true wireless headset to VTech from a competitor. The home appliances business benefited from higher orders from existing customers. The medical and health products business saw sales of health and beauty products rise sharply under the pandemic, offsetting a decline in orders for hearing aids. Communication products saw higher orders of Wi-Fi routers, while sales of smart battery chargers for the automotive industry improved due to the good market response to a new product launch by the customer. In contrast, professional audio equipment posted lower sales, as growing demand for audio interface equipment for home use failed to offset lower orders for audio mixers and amplifiers. The pandemic slowed down the installation of smart meters in the UK, negatively affecting IoT products, though sales of internet-connected thermostats and air-conditioning controls were stable. Sales of switching mode power supplies were lower as a customer transferred production back in-house following a change in ownership.

Asia Pacific

Group revenue in Asia Pacific grew by 3.5% to US$268.4 million in the financial year 2021, as higher sales of TEL products and CMS offset lower revenue from ELPs. The Asia Pacific region represented 11.3% of Group revenue.

Revenue from ELPs in Asia Pacific decreased by 1.4% to US$82.0 million, as growth in Australia was offset by lower sales in mainland China. Australia saw a robust sales increase on strong sell-through of both VTech and LeapFrog branded products, with demand for educational toys rising as children spent more time at home due to the pandemic. In addition, effective channel management drove online-to-offline sales higher, boosting growth in the country. In the calendar year 2020, VTech maintained its position as the number one manufacturer in the infant and toddler toys category in Australia[12]. In mainland China, sales were lower, primarily due to a revenue decrease in offline channels. In Malaysia, the Group recognised a first full-year sales contribution from its flagship store on Lazada.com.

TEL products in Asia Pacific saw revenue increase by 13.6% to US$31.7 million, driven by higher sales in Australia, Japan and Hong Kong. In Australia, growth was mainly attributable to baby monitors, while Hong Kong saw higher sales of IADs. In Japan, orders for residential phones increased as an existing customer increased orders.

CMS revenue in Asia Pacific rose by 4.3% to US$154.7 million. Growth in professional audio equipment and communication products offset lower sales of medical and health products and home appliances. This came despite the production facilities in Muar, Malaysia having to shut for several weeks in April because of government COVID-19 measures. Higher sales of professional audio equipment were mainly attributable to increased sales of DJ equipment and the acquisition of a customer supplying USB streaming microphones for online KOLs (Key Opinion Leaders). Sales of communication products rose on more orders for marine radios as a new generation of products was launched. In contrast to these increases, medical and health products reported lower sales. Orders for diagnostic ultrasound systems declined as hospitals shifted their budgets to purchase COVID-19 related equipment. Sales of home appliances also decreased, as a product reached the end of its life cycle.

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 25.5% to US$22.5 million in the financial year 2021. The decrease was attributable to lower sales at all three product lines. Other Regions accounted for 1.0% of Group revenue.

ELPs revenue in Other Regions decreased by 30.6% to US$8.4 million. Higher sales in Africa were offset by lower sales in the Middle East and Latin America.

TEL products revenue in Other Regions was down by 16.9% to US$13.8 million. The decline was attributable to sales decreases in Latin America, which offset increases in the Middle East and Africa.

CMS revenue in Other Regions was US$0.3 million in the financial year 2021, as compared to US$1.5 million in the previous financial year.

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[12] The NPD Group, Retail Tracking Service

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 2021, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviations from code provision A.2.1 and A.6.7 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. As half of the Board members are independent non-executive directors of the Company ("Independent Non-executive Directors"), the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. Furthermore, as Dr. Allan WONG Chi Yun is the founder of the Group and has substantial professional experience in the industry, the Board believes that the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the sustainable development of the Group, and for the long-term interests of the shareholders.

Under code provision A.6.7 of the Code, independent non-executive directors generally should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Professor KO Ping Keung was unable to attend the 2020 Annual General Meeting of the Company held on 10 July 2020 (the "2020 AGM") due to the travel restrictions arising from the COVID-19 pandemic. The 2020 AGM proceeded smoothly with the attendance of the external auditor and all Directors except Professor KO Ping Keung. Considering that all other Directors (including the other three Independent Non-executive Directors) attended the 2020 AGM, the Board is of the view that the Board as a whole gained and developed a balanced understanding of the views of the shareholders of the Company.

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 2021.

REVIEW OF GROUP'S AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 2021 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 2021 have been reviewed with no disagreement by the Audit Committee. The Audit Committee has also reviewed the key Environmental, Social and Governance issues and the related risks and strategies, and approved the 2021 Sustainability Report.

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 2021.

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 306,000 Company's shares at a consideration of approximately US$2.3 million.

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

Hong Kong, 18 May 2021

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

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