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VTech Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock code: 303)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2022

PERFORMANCE HIGHLIGHTS

- ♦ Group revenue remained essentially flat at US\$2,370.5 million
- ♦ Sales of electronic learning products surpassed US\$1 billion
- ♦ Global materials shortages, supply chain disruptions, unprecedented increase in freight charges, and rising costs affected results
- ♦ Gross profit margin fell from 30.6% to 28.2%
- ♦ Profit attributable to shareholders of the Company declined 25.2% to US\$172.7 million
- ♦ Final dividend of US51.0 cents per ordinary share, resulting in a full-year dividend of US68.0 cents, down 25.3% year-on-year

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 2022 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2022

	Note	2022 US\$ million	2021 US\$ million
Revenue	2	2,370.5	2,372.3
Cost of sales		(1,701.4)	(1,645.7)
Gross profit		669.1	726.6
Other net (expenses) / income	3	(0.5)	4.2
Selling and distribution costs		(304.9)	(295.5)
Administrative and other operating expenses		(75.6)	(82.7)
Research and development expenses		(84.3)	(86.4)
Operating profit	2(b)	203.8	266.2
Net finance expense	3	(9.6)	(7.3)
Share of results of an associate		0.4	0.4
Profit before taxation	3	194.6	259.3
Taxation	4	(21.9)	(28.4)
Profit for the year and attributable to shareholders of the Company		172.7	230.9
Earnings per share (US cents)	6		
- Basic		68.5	91.6
- Diluted		68.5	91.6

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2022

	2022 US\$ million	2021 US\$ million
Profit for the year	172.7	230.9
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax	0.5	8.0
	0.5	8.0
Items that may be reclassified subsequently to profit or loss:		
Fair value gains / (losses) on hedging, net of deferred tax	3.0	(2.7)
Realisation of hedging reserve, net of deferred tax	2.7	(3.3)
Exchange translation differences	(4.2)	27.6
	1.5	21.6
Other comprehensive income for the year	2.0	29.6
Total comprehensive income for the year	174.7	260.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	Note	2022 US\$ million	2021 US\$ million
Non-current assets			
Tangible assets	7	87.3	92.2
Right-of-use assets		180.8	193.1
Intangible assets		16.0	16.8
Goodwill		36.1	36.1
Interest in an associate		3.8	3.4
Investments		2.2	6.8
Net assets on defined benefit scheme		7.4	6.9
Deferred tax assets		10.9	10.0
		344.5	365.3
Current assets			
Stocks		553.3	414.0
Debtors, deposits and prepayments	8	384.9	318.9
Taxation recoverable		8.2	3.6
Deposits and cash		195.8	343.8
		1,142.2	1,080.3
Current liabilities			
Creditors and accruals	9	(567.2)	(461.8)
Provisions for defective goods returns and other liabilities		(28.3)	(26.4)
Lease liabilities		(20.6)	(17.5)
Taxation payable		(11.9)	(17.3)
		(628.0)	(523.0)
Net current assets		514.2	557.3
Total assets less current liabilities		858.7	922.6
Non-current liabilities			
Deferred tax liabilities		(3.4)	(2.9)
Lease liabilities		(176.5)	(188.6)
		(179.9)	(191.5)
Net assets		678.8	731.1
Capital and reserves			
Share capital		12.6	12.6
Reserves		666.2	718.5
Total equity		678.8	731.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2022

	Attributable to shareholders of the Company								
	Note	Share capital	Share premium	Shares held for Share Purchase Scheme	Exchange reserve	Capital reserve	Hedging reserve	Revenue reserve	Total equity
		US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
At 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 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		-	-	-	-	-	-	(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 / 1 April 2021		12.6	158.3	(0.2)	(7.1)	-	(2.7)	570.2	731.1
Changes in equity for the year ended 31 March 2022									
Comprehensive income									
Profit for the year		-	-	-	-	-	-	172.7	172.7
Other comprehensive income									
Fair value gains on hedging, net of deferred tax		-	-	-	-	-	3.0	-	3.0
Realisation of hedging reserve, net of deferred tax		-	-	-	-	-	2.7	-	2.7
Exchange translation differences		-	-	-	(4.2)	-	-	-	(4.2)
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax		-	-	-	-	-	-	0.5	0.5
Other comprehensive income for the year		-	-	-	(4.2)	-	5.7	0.5	2.0
Total comprehensive income for the year		-	-	-	(4.2)	-	5.7	173.2	174.7
Final dividend in respect of the previous year	5	-	-	-	-	-	-	(186.8)	(186.8)
Interim dividend in respect of the current year	5	-	-	-	-	-	-	(42.9)	(42.9)
Equity-settled share based payments – share options		-	-	-	-	0.3	-	-	0.3
Shares issued under Share Purchase Scheme		-	2.5	(2.5)	-	-	-	-	-
Shares purchased for Share Purchase Scheme		-	-	(1.6)	-	-	-	-	(1.6)
Vesting of shares of Share Purchase Scheme		-	-	4.0	-	-	-	-	4.0
At 31 March 2022		12.6	160.8	(0.3)	(11.3)	0.3	3.0	513.7	678.8

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2022

	Note	2022 US\$ million	2021 US\$ million
Operating activities			
Operating profit		203.8	266.2
Depreciation of tangible assets	3	41.4	36.6
Depreciation of right-of-use assets	3	22.4	21.8
Amortisation of intangible assets	3	0.8	0.9
Dividend income from investment	3	(3.6)	-
Fair value loss on investments measured at fair value through profit or loss	3	4.6	1.5
(Gain) / loss on disposal of tangible assets	3	(0.1)	0.1
Share-based payment expenses – Share Purchase Scheme		4.0	5.0
Share-based payment expenses – share options		0.3	-
Increase in stocks		(139.3)	(41.4)
Increase in debtors, deposits and prepayments		(63.6)	(49.7)
Increase in creditors and accruals		109.2	67.5
Increase in provisions for defective goods returns and other liabilities		1.9	2.2
Decrease in net assets on defined benefit scheme		-	0.2
Cash generated from operations		181.8	310.9
Interest paid		(0.5)	-
Interest on lease liabilities		(9.1)	(7.3)
Taxes paid		(32.6)	(23.3)
Net cash generated from operating activities		139.6	280.3
Investing activities			
Purchase of tangible assets		(35.9)	(48.0)
Proceeds from disposal of tangible assets		0.3	0.2
Dividend received from investment		3.6	-
Net cash used in investing activities		(32.0)	(47.8)
Financing activities			
Capital element of lease rentals paid		(18.5)	(19.8)
Payment for shares acquired for Share Purchase Scheme		(1.6)	(2.3)
Dividends paid	5	(229.7)	(133.6)
Net cash used in financing activities		(249.8)	(155.7)
Effect of exchange rate changes		(5.8)	24.5
(Decrease) / increase in cash and cash equivalents		(148.0)	101.3
Cash and cash equivalents at 1 April		343.8	242.5
Cash and cash equivalents at 31 March		195.8	343.8

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 2022. 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 16, *Covid-19-related rent concessions beyond 30 June 2021*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2022

	North America US\$ million	Europe US\$ million	Asia Pacific US\$ million	Other Regions US\$ million	Total US\$ million
Electronic Learning Products	555.6	375.1	83.9	10.9	1,025.5
Telecommunication Products	274.9	93.8	27.7	10.9	407.3
Contract Manufacturing Services	238.0	556.2	143.4	0.1	937.7
Total	1,068.5	1,025.1	255.0	21.9	2,370.5

2. Revenue and Segment Information (Continued)

(a) Revenue (Continued)

Disaggregation of revenue (Continued)

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

The Group's customer base is diversified and include three (2021: three) customers with whom transactions have exceeded 10% of the Group's revenue. The revenue from these three customers accounted for approximately 13%, 12% and 12% of the Group's revenue for the year ended 31 March 2022 respectively. For the year ended 31 March 2021, approximately 15%, 12% and 12% of the Group's revenue are derived from three 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 and Mexico under North America 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 and lease liabilities with the exception of taxation payable and deferred tax liabilities.

Year ended 31 March 2022

	North America US\$ million	Europe US\$ million	Asia Pacific US\$ million	Other Regions US\$ million	Total US\$ million
Reportable segment revenue	1,068.5	1,025.1	255.0	21.9	2,370.5
Reportable segment profit	104.1	67.6	28.1	4.0	203.8
Depreciation and amortisation	3.4	3.7	57.5	-	64.6
Reportable segment assets	212.3	138.2	1,059.0	-	1,409.5
Reportable segment liabilities	(93.6)	(38.1)	(660.9)	-	(792.6)

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)

2. Revenue and Segment Information *(Continued)*

(c) Reconciliations of reportable segment assets and liabilities

	2022 US\$ million	2021 US\$ million
Assets		
Reportable segment assets	1,409.5	1,368.9
Intangible assets	16.0	16.8
Goodwill	36.1	36.1
Interest in an associate	3.8	3.4
Investments	2.2	6.8
Taxation recoverable	8.2	3.6
Deferred tax assets	10.9	10.0
Consolidated total assets	1,486.7	1,445.6
Liabilities		
Reportable segment liabilities	(792.6)	(694.3)
Taxation payable	(11.9)	(17.3)
Deferred tax liabilities	(3.4)	(2.9)
Consolidated total liabilities	(807.9)	(714.5)

3. Profit before taxation

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

	2022 US\$ million	2021 US\$ million
Dividend income from investment <i>(Notes (i) & (ii))</i>	(3.6)	-
Fair value loss on investments measured at fair value through profit or loss <i>(Notes (i) & (ii))</i>	4.6	1.5
Government subsidies <i>(Notes (i) & (iii))</i>	(0.5)	(5.7)
Depreciation of tangible assets	41.4	36.6
Depreciation of right-of-use assets	22.4	21.8
Amortisation of intangible assets	0.8	0.9
(Gain) / loss on disposal of tangible assets	(0.1)	0.1
Interest on lease liabilities <i>(Note (iv))</i>	9.1	7.3
Other interest expenses, net <i>(Note (iv))</i>	0.5	-
Net foreign exchange loss / (gain)	0.3	(0.6)
Net loss / (gain) on forward foreign exchange contracts		
- Net loss / (gain) on cash flow hedging instruments reclassified from equity	2.9	(3.6)
- Net (gain) / loss on forward foreign exchange contracts	(1.2)	1.2

Notes:

- (i) Included in other net (expenses) / income in the consolidated statement of profit or loss.
- (ii) The Group invests in an investment holding company which has a shareholding in a listed entity that designs and distributes integrated circuit products (the "Investment"). Upon the partial disposal of the listed entity during the year, a dividend income of US\$3.6 million was received from the investment holding company and the Group recognised a fair value loss of the same amount on the Investment accordingly. A fair value loss of US\$1.0 million on the Investment relating to the unsold shareholding in the listed entity was also recorded in the current year.
- (iii) This represented employment subsidies received from various governments in response to the outbreak of COVID-19.
- (iv) Included in net finance expense in the consolidated statement of profit or loss.

4. Taxation

	2022 US\$ million	2021 US\$ million
Current tax		
- Hong Kong	12.6	20.9
- Overseas	10.3	9.9
Overprovision in respect of prior years		
- Hong Kong	(0.2)	-
- Overseas	(0.1)	(0.3)
Deferred tax		
- Origination and reversal of temporary differences	(0.7)	(2.1)
	21.9	28.4
Current tax	22.6	30.5
Deferred tax	(0.7)	(2.1)
	21.9	28.4

- (a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2021: 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

	2022 US\$ million	2021 US\$ million
Interim dividend of US17.0 cents (2021: US17.0 cents) per share declared and paid	42.9	42.8
Final dividend of US51.0cents (2021: US74.0 cents) per share proposed after the end of the reporting period	128.7	186.8

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 2021, the Directors proposed a final dividend of US74.0 cents per ordinary share for the year ended 31 March 2021, which was estimated to be US\$186.6 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2021. The final dividend was approved by shareholders at the annual general meeting on 13 July 2021. The final dividend paid in respect of the year ended 31 March 2021 totaled US\$186.8 million.

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\$172.7 million (2021: US\$230.9 million).

The calculation of basic earnings per share is based on the weighted average of 252.1 million (2021: 252.0 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 2022 was based on 252.1 million ordinary shares (2021: 252.0 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 2022, the Group acquired items of tangible assets with a cost of US\$35.9 million (2021: US\$49.4 million).

8. Debtors, deposits and prepayments

At 31 March 2022, total debtors, deposits and prepayments of US\$384.9 million (31 March 2021: US\$318.9 million) included net trade debtors of US\$325.4million (31 March 2021: US\$270.7 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:

	2022 US\$ million	2021 US\$ million
0-30 days	190.0	178.3
31-60 days	92.0	58.9
61-90 days	23.8	25.7
>90 days	19.6	7.8
Total	325.4	270.7

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

9. Creditors and accruals

At 31 March 2022, total creditors and accruals of US\$567.2 million (31 March 2021: US\$461.8 million) included trade creditors of US\$327.2 million (31 March 2021: US\$236.7 million).

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

	2022 US\$ million	2021 US\$ million
0-30 days	106.2	104.2
31-60 days	74.3	47.7
61-90 days	61.7	58.6
>90 days	85.0	26.2
Total	327.2	236.7

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 2022 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 US51.0 cents per ordinary share in respect of the year ended 31 March 2022, payable on 28 July 2022 to the shareholders whose names appear on the register of members of the Company as at the close of business on 19 July 2022 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 2022 (the "2022 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 2022.

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 2022 AGM, the register of members of the Company will be closed from 8 July 2022 to 13 July 2022 (both days inclusive), during which no transfer of shares will be effected. The shareholders whose names appear on the register of members of the Company on 13 July 2022 are entitled to attend and vote at the 2022 AGM following completion of the registration procedures for share transfers. In order to be entitled to attend and vote at the 2022 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 1712-1716, 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 2022.

- (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 2022, 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 1712-1716, 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 18 July 2022.

LETTER TO SHAREHOLDERS

VTech reported stable revenue and lower profit for the financial year 2022. This was largely the result of coronavirus (COVID-19) related disruptions to production and supply chains, together with cost pressures resulting from global shortages of materials and shipping containers.

Results and Dividend

Group revenue for the year ended 31 March 2022 decreased slightly by 0.1% to US\$2,370.5 million, from US\$2,372.3 million in the previous financial year. Higher sales in North America were insufficient to offset lower sales in Europe, Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company fell by 25.2% to US\$172.7 million. The decline in profit was mainly attributable to lower gross profit as costs rose significantly.

Basic earnings per share decreased by 25.2% to US68.5 cents, compared to US91.6 cents in the financial year 2021.

The Board of Directors has proposed a final dividend of US51.0 cents per ordinary share, providing a full-year dividend of US68.0 cents per ordinary share, a 25.3% decrease from the US91.0 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 2022 was 28.2%, as compared with 30.6% in the previous financial year.

The decline was mainly attributable to the unprecedented increase in freight costs arising from container shortages globally. Direct labour costs and manufacturing overhead were also higher than the last financial year, mainly because of the appreciation of the Renminbi and the unstable supply of materials, which impacted productivity. The increases in materials prices, especially of electronic components and plastics, also contributed to the decline in gross profit margin. These pressures were partially offset by a change in the product mix.

Improvement was seen in the second half as the Group raised prices for its products. Freight cost also declined slightly after the peak shipping season, but the supply of semiconductors remained tight.

Our Businesses

The operating environment for the Group's businesses was extremely challenging in the financial year 2022. There was continual disruption to the global supply chain, leading to materials shortages, significant cost increases and shipment delays. Productivity was impacted by this instability even further, as it resulted in more overtime payments and hence higher overall labour costs. On the sales side, while demand for VTech products was strong, some orders could not be fulfilled properly, as the problems with materials supply and shipment delays led to late availability of products and low channel inventory.

VTech moved swiftly to implement measures designed to mitigate these negative impacts during the financial year, which began to take effect in the second half. Close, long-standing relationships with suppliers enabled the Group to secure a more stable supply of critical components. Other measures taken included re-engineering products to lower cost and accommodate alternative parts, sourcing alternative shipping carriers to secure containers, as well as increasing stocks of critical components. In a further measure, the Group started production earlier to allow a longer time for shipment and transportation, in order to reduce the impact of logistics delays. The Group also raised product prices, thereby passing through some of the cost increases to consumers.

As a result, VTech managed to achieve stable revenue for the full financial year 2022. Online sales grew to account for 15.4% of Group revenue. Profitability improved in the second half as compared with the first six months.

Despite all the challenges, the ELPs business reported record revenue, surpassing US\$1 billion in sales in the financial year 2022. The business achieved growth in all regions and maintained its global leadership position in electronic learning toys from infancy through toddler and preschool¹. This good performance was driven by standalone products, as platform products were more negatively affected by the shortage of semiconductors.

Standalone products were supported by higher sales of both VTech and LeapFrog branded products. At VTech, particularly strong growth was seen in infant, toddler and preschool products, KidiZoom® Cameras and Switch & Go® Dinos. The new product line Marble Rush™ was successfully launched to the Group's major markets during the financial year, winning many awards and generating incremental sales. At LeapFrog, infant and toddler products led the growth, while the successful roll out of LeapLand Adventures™ added a new revenue stream.

For platform products, increased sales of VTech's Touch & Learn Activity Desk™ and LeapFrog's Magic Adventures Globe™ were insufficient to offset declines in children's educational tablets, KidiZoom Smartwatches and KidiBuzz™/KidiCom MAX®. Subscriptions to LeapFrog Academy™ declined, as semiconductor shortages held back sales of children's educational tablets. As a result of these developments, standalone products increased their percentage share of total ELPs revenue from 82% in the previous financial year to 84% in the financial year 2022.

¹ Ranking based on The NPD Group Retail Tracking Service for Projected US Dollar Sales in the US, Canada, France, Germany, the UK, Belgium, the 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 2021

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 2021

The TEL products business saw a decrease in revenue for the financial year 2022, as growth in commercial phones and other telecommunication products was offset by a sales decline for residential phones. Consequently, commercial phones and other telecommunication products saw their share of total TEL products revenue increase further, from 49% in the previous financial year to 59% in the financial year 2022.

In the US, residential phones suffered from the severe shortages of semiconductors and market contraction, following a year of growth as working from home became the norm and consumers upgraded their home telephone systems. Despite a decline in sales, VTech maintained its number one position in the US residential phones market². In an important development, the Group successfully introduced VTech branded DECT (Digital Enhanced Cordless Telecommunications) phones on a major e-tailer in Europe, paving the way for increased penetration of its own branded residential phones in this region.

Higher sales of commercial phones and other telecommunication products were driven by baby monitors, Snom branded SIP (Session Initiation Protocol) phones, hotel phones and headsets. Baby monitors experienced especially strong growth in North America, buoyed by the launch of well-received new products and more placements across all major retailers. As a result, VTech baby monitors strengthened their leadership position as the number one brand in the US and Canada³. Snom branded SIP phones grew in both US and Europe. In the US, the Group gained market share because of a stable product supply. In Europe, growth was supported by new product launches and the resumption of business activity. Hotel phones also benefited from the lifting of COVID-19 restrictions in VTech's major markets. Sales of headsets were boosted by increased orders from an existing customer.

CMS revenue for the financial year 2022 decreased, despite a strong order book. Global materials shortages affected sales and productivity. During the financial year, the Group's Malaysian factory was shut down for a total of 45 days as a result of the Movement Control Order implemented by the Malaysian government to curb the spread of COVID-19. Nevertheless, the VTech CMS business ranked 28th in the world among electronics manufacturing services providers, and first in Hong Kong, according to *Manufacturing Market Insider*⁴.

Despite these challenges, VTech's CMS business was able to meet majority of customer demand in the financial year 2022. Most product categories posted sales increases, as social distancing measures eased in North America and Europe. The Group also added a new customer in the field of smart energy management systems. The New Product Introduction (NPI) centre in Shenzhen saw exceptional growth as its reputation in the Greater Bay Area of southern China grew, while the manufacturing facilities in Tecate, Mexico started to contribute to revenue. These successes were, however, offset by a sales decline for hearables, which suffered from materials shortages and reduced orders for Bluetooth headsets.

² MarketWise Consumer Insights, LLC, April 2021 to March 2022

³ The NPD Group/Retail Tracking Service, April 2021 – March 2022 combined vs YA

⁴ *Manufacturing Market Insider*, March 2022 edition

Building a Sustainable Future Together

VTech is a global leader in ELPs and residential telephony, as well as a world-leading contract manufacturing service provider. With 46 years of excellence in technological innovation, the Group has a steadfast commitment to build a sustainable future to improve the lives of people and for future generations. This includes sustainable design for products and packaging, climate change initiatives, and provision of a safe and inclusive workplace for the employees with ethical sourcing practices throughout its supply chain.

Despite the ongoing COVID-19 pandemic and the challenges it has brought to the world, VTech continues to make progress towards a circular economy. Last year, VTech introduced its first range of green ELPs that utilise plant-based plastic, reclaimed plastic and Forest Stewardship Council (FSC) certified wood. Later this year, VTech will launch two new plush ELPs with fabric made from recycled polyethylene terephthalate (PET) bottles, and offer more eco-friendly toy products made from plant-based plastic and FSC-certified wood. As for sustainable packaging, over 94% of the packaging materials for its ELPs is recyclable, of which about 85% is made from recycled materials.

In order to combat climate change and its impacts on the planet, VTech continues to extend its investment in solar technology together with various energy efficiency projects at its manufacturing sites, and implement a number of water saving and waste management programmes to reduce natural resources consumption in its factory operations. As a responsible corporate citizen, VTech also collaborates with its suppliers to provide a safe, inclusive and sustainable workplace throughout its supply chain, and promote ethical sourcing practices through its suppliers' commitment to VTech's code of conduct.

Looking to the future, VTech will continue to step up efforts to integrate economic growth, environmental protection and social responsibility in its business strategies to design, manufacture and supply innovative and high-quality products for the well-being of people and benefit of society, aiming to drive sustainable value for its stakeholders and the communities.

Outlook

Many uncertainties lie ahead in the financial year 2023. On the demand side, high inflation in both the US and Europe may slow consumer spending. The spread of COVID-19 in mainland China has recently prompted lockdowns in major cities, which are negatively impacting domestic consumption. On the cost side, materials prices remain elevated. This is especially true of plastic materials, as the war in Ukraine has pushed up oil prices significantly. The supply of semiconductors and critical components remains tight, with the lockdowns in mainland China also disrupting the global supply chain. Despite some improvement in the supply of containers, freight costs will also be higher than last year.

The direct effects on the Group of the war in Ukraine will be minimal, as its sales to Ukraine and Russia represented only about 0.2% of Group revenue in the financial year 2022.

In spite of the uncertain business environment, the Group is cautiously optimistic of achieving overall top-line growth in the financial year 2023. Gross profit margin, meanwhile, is expected to be largely stable year-on-year, owing to the continued headwinds of elevated materials prices and freight costs, as well as shortages of critical components.

The Group is now much better prepared to tackle the supply chain pressures. Sufficient stockpiles of materials are in place to meet the strong orders on hand, while earlier production and shipment schedules will ensure new products reach customers on time, and channel inventory will greatly improve.

ELPs revenue is forecast to post modest growth in the financial year 2023. This will be driven by strong product offerings, on-time delivery of products, improved channel inventory and more well-planned advertising and promotions. The infant, toddler and preschool products will maintain their positive momentum as the Group strengthens its core learning and licensed products. The expanded Spring offerings have hit the shelves on time and the initial sell-through has been good. Among the upcoming new product launches for Autumn is Magic Adventures Microscope™, which lets children explore interesting facts related to flowers, insects, the human body and more through over 220 custom BBC videos and images. Subscriptions to LeapFrog Academy are expected to return to growth as the supply of LeapFrog tablets improves, supported by content targeting older age groups. In mainland China, however, sales are expected to decrease as the lockdowns in major cities are negatively impacting both offline and online sales.

TEL products are expected to achieve higher revenue. This will be driven by increased sales of commercial phones and other telecommunication products, augmented by the recovery of VTech branded residential phones in the US and expansion in Europe. The continued good momentum of commercial phones and other telecommunication products will be supported by a wide array of new products. The baby monitors category will be strengthened by the expansion of the LeapFrog range and a series of VTech branded baby monitors with AI (artificial intelligence) detection features. In commercial phones, the D8 series of advanced Snom SIP desksets, along with a new range of the multi-cell SIP DECT mobility system, will be rolled out globally. A work-from-anywhere series, including a Bluetooth conference speaker with audio recording function and a professional headset, will be launched in the third quarter of the financial year 2023. VTech hospitality phones will be revamped, with a new series featuring a contemporary design.

CMS revenue is anticipated to return to growth as the order book is strong. Benefiting from the global economy recovering to its pre-pandemic level, and a very sizable backlog of orders, most product categories are forecast to grow. The exception will be hearables, which are expected to decline further on lower demand for mobile headsets. The contribution from the new smart energy management system is expected to become significant during the financial year 2023, as the complete product line enters full production. Further growth is expected from the NPI centre in Shenzhen, while the Mexican facility will ramp up production and begin to build up its EMS capacity. As ongoing materials shortages may constrain VTech's ability to meet all orders on time, the Group is taking steps to work closely with customers and suppliers to secure a high level of mutual support during critical situations.

I wish to thank my fellow directors for their counsel, and all our colleagues for their hard work. My sincere thanks go to our customers and suppliers, who have worked closely with us to navigate the challenges we have faced. I also wish to take this opportunity to acknowledge the support of all our shareholders and business partners.

VTech is now much better prepared for the headwinds ahead than a year ago. We have strong brands, a diverse product mix, a proven ability to bring innovative products to market and a strong financial position. As such, the Group is in a good position to deliver solid results in the current financial year, as we continue to strengthen our market leadership and pursue operational excellence.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

For the year ended 31 March 2022

	2022 US\$ million	2021 US\$ million	Change US\$ million
Revenue	2,370.5	2,372.3	(1.8)
Gross profit	669.1	726.6	(57.5)
Gross profit margin	28.2%	30.6%	
Other net (expenses) / income	(0.5)	4.2	(4.7)
Total operating expenses	(464.8)	(464.6)	(0.2)
Total operating expenses as a percentage of revenue	19.6%	19.6%	
Operating profit	203.8	266.2	(62.4)
Operating profit margin	8.6%	11.2%	
Net finance expense	(9.6)	(7.3)	(2.3)
Share of results of an associate	0.4	0.4	-
Profit before taxation	194.6	259.3	(64.7)
Taxation	(21.9)	(28.4)	6.5
Effective tax rate	11.3%	11.0%	
Profit for the year and attributable to shareholders of the Company	172.7	230.9	(58.2)
Net profit margin	7.3%	9.7%	

Revenue

Group revenue for the year ended 31 March 2022 decreased by 0.1% to US\$2,370.5 million compared with the previous financial year. The decrease in revenue was largely driven by the decrease in revenue in Europe, Asia Pacific and Other Regions, which offset the higher sales in North America.

	2022		2021		Increase / (decrease)	
	US\$ million	%	US\$ million	%	US\$ million	%
North America	1,068.5	45.1%	995.1	41.9%	73.4	7.4%
Europe	1,025.1	43.2%	1,086.3	45.8%	(61.2)	(5.6%)
Asia Pacific	255.0	10.8%	268.4	11.3%	(13.4)	(5.0%)
Other Regions	21.9	0.9%	22.5	1.0%	(0.6)	(2.7%)
	2,370.5	100.0%	2,372.3	100.0%	(1.8)	(0.1%)

Gross Profit/Margin

Gross profit for the financial year 2022 was US\$669.1 million, a decrease of US\$57.5 million or 7.9% compared to the US\$726.6 million recorded in the previous financial year. Gross profit margin for the year also reduced from 30.6% to 28.2%. It was mainly attributable to the drastic increase in freight costs arising from container shortages. Direct labour costs and manufacturing overhead were also higher than the last financial year, which were mainly due to the appreciation of Renminbi and the unstable supply of materials impacting the productivity. The increases in material prices, especially electronic components and plastic materials, also contributed to the decline in gross profit margin. These were partially offset by the change in product mix.

Operating Profit/Margin

Operating profit for the year ended 31 March 2022 was US\$203.8 million, a decrease of US\$62.4 million or 23.4% compared with the previous financial year. Operating profit margin also reduced from 11.2% to 8.6%. The reduction in both operating profit and operating profit margin was mainly due to the decrease in gross profit and gross profit margin. Operating profit for the year also included government subsidies of US\$0.5 million in response to COVID-19, as compared with an amount of US\$5.7 million in the last financial year. The Group invests in an investment holding company which has a shareholding in a listed entity that designs and distributes integrated circuit products (the "Investment"). Other net expenses included a fair value loss of US\$1.0 million on this Investment, as compared with a fair value loss of US\$1.5 million in the same period last year.

Total operating expenses for the year ended 31 March 2022 increased from US\$464.6 million to US\$464.8 million as compared with the last financial year. Total operating expenses as a percentage of Group revenue was 19.6%, same as the previous financial year.

Selling and distribution costs increased from US\$295.5 million to US\$304.9 million compared with the same period last year. It was mainly attributable to the increases in employee related costs and logistic expenses. As a percentage of Group revenue, selling and distribution costs increased from 12.5% to 12.9%.

Administrative and other operating expenses decreased from US\$82.7 million to US\$75.6 million compared with the same period last year. It was mainly due to the decrease in employee related costs. The net exchange loss arising from the Group's global operations in the ordinary course of business was US\$0.3 million, as compared with a net exchange gain of US\$0.6 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue decreased from 3.5% to 3.2%.

During the financial year 2022, the research and development expenses were US\$84.3 million, a decrease of 2.4% compared with the previous financial year. It was mainly due to the decrease in project expenses. Research and development expenses as a percentage of Group revenue was 3.6%, same as the previous financial year.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2022 was US\$172.7 million, a decrease of US\$58.2 million or 25.2% as compared to the last financial year. Net profit margin also decreased from 9.7% to 7.3%.

Basic earnings per share for the year ended 31 March 2022 were US68.5 cents as compared to US91.6 cents in the previous financial year.

Dividends

During the financial year 2022, the Group declared and paid an interim dividend of US17.0 cents per share, which aggregated to US\$42.9 million. The Directors have proposed Final Dividend of US51.0 cents per share, which is estimated to be US\$128.7 million.

Liquidity and Financial Resources

Shareholders' funds as at 31 March 2022 were US\$678.8 million, a decrease of 7.2% from US\$731.1 million in the last financial year. Shareholders' funds per share decreased by 7.2% from US\$2.90 to US\$2.69.

The Group had no borrowings as at 31 March 2022 and 31 March 2021.

The Group's financial position remains strong. As at 31 March 2022, the Group had net cash of US\$195.8 million, a decrease of 43.0% as compared to US\$343.8 million as of 31 March 2021. It was mainly due to the decrease in EBITDA, increase in working capital investment and higher dividend payment compared with the last financial year.

Analysis of Cash Flow from Operations

	2022 US\$ million	2021 US\$ million	Change US\$ million
Operating profit	203.8	266.2	(62.4)
Depreciation and amortisation	64.6	59.3	5.3
EBITDA	268.4	325.5	(57.1)
(Gain) / loss on disposal of tangible assets	(0.1)	0.1	(0.2)
Dividend income from investment	(3.6)	-	(3.6)
Fair value loss on investments	4.6	1.5	3.1
Share-based payment expense – Share Purchase Scheme	4.0	5.0	(1.0)
Share-based payment expenses – share options	0.3	-	0.3
Working capital change	(91.8)	(21.2)	(70.6)
Cash generated from operations	181.8	310.9	(129.1)

The Group's cash generated from operations for the year ended 31 March 2022 was US\$181.8 million, a decrease of US\$129.1 million or 41.5% as compared to US\$310.9 million in the previous financial year. The decrease was mainly attributable to the lower EBITDA as well as the increase in working capital compared with the previous financial year.

Working Capital Change

	Balance as at 31 March 2021 US\$ million	Hedging and others US\$ million	Working capital change per cash flow US\$ million	Balance as at 31 March 2022 US\$ million
Stocks	414.0	-	139.3	553.3
Trade debtors	270.7	-	54.7	325.4
Other debtors, deposits and prepayments	48.2	2.4	8.9	59.5
Trade creditors	(236.7)	-	(90.5)	(327.2)
Other creditors and accruals	(225.1)	3.8	(18.7)	(240.0)
Provisions for defective goods returns and other liabilities	(26.4)	-	(1.9)	(28.3)
Net assets on defined benefit scheme	6.9	0.5	-	7.4
Total working capital	251.6	6.7	91.8	350.1

Stocks as of 31 March 2022 were US\$553.3 million, increased from US\$414.0 million as of 31 March 2021. The turnover days also increased from 103 days to 131 days. The higher stock level was largely due to the stock-up of raw materials in view of the unstable supply, as well as the increased demand for the Group's products in the first quarter of the financial year 2023. The Group had also arranged early production of the Group's products in order to better utilise the Group's production capacities, and pulled in shipments to its overseas warehouses so as to mitigate the risk of vessel capacity constraints during the peak season of the financial year 2023.

As at 31 March 2022 and 2021

All figures are in US\$ million unless stated otherwise	2022	2021
Stocks	553.3	414.0
Average stocks as a percentage of Group revenue	20.4%	16.6%
Turnover days	131 days	103 days

Trade debtors as of 31 March 2022 were US\$325.4 million, increased from US\$270.7 million as of 31 March 2021. The higher trade debtor balance as at 31 March 2022 was mainly due to the increase in revenue in the fourth quarter of the financial year 2022 compared with the corresponding period of the previous financial year. Debtor turnover days also increased from 61 days to 65 days, which was mainly due to the change in customer mix. The overdue balances greater than 30 days accounted for 1.5% of the gross trade debtors as of 31 March 2022.

As at 31 March 2022 and 2021

All figures are in US\$ million unless stated otherwise	2022	2021
Trade debtors	325.4	270.7
Average trade debtors as a percentage of Group revenue	12.6%	10.4%
Turnover days	65 days	61 days

Other debtors, deposits and prepayments as of 31 March 2022 were US\$59.5 million, increased from US\$48.2 million as of 31 March 2021. It was mainly attributable to the increase in fair value gain on forward foreign exchange contracts in the financial year 2022.

Trade creditors as of 31 March 2022 were US\$327.2 million, as compared to US\$236.7 million as of 31 March 2021. Creditor turnover days increased from 79 days to 106 days. The increase in trade creditors was mainly due to the increase in purchase of raw materials compared with the same period last year.

As at 31 March 2022 and 2021

All figures are in US\$ million unless stated otherwise	2022	2021
Trade creditors	327.2	236.7
Turnover days	106 days	79 days

Other creditors and accruals as of 31 March 2022 were US\$240.0 million, increased from US\$225.1 million as of 31 March 2021. It was largely attributable to the increase in accruals of advertising expenses and other allowances to customers.

Provisions for defective goods returns and other liabilities as of 31 March 2022 were US\$28.3 million, as compared to US\$26.4 million as of 31 March 2021.

Net assets on defined benefit scheme as of 31 March 2022 were US\$7.4 million, as compared to US\$6.9 million as of 31 March 2021. 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 2022, the Group invested US\$35.9 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

Capital commitments in the financial year 2023 for ongoing business operations are expected to be US\$43.7 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 2022 was around 25,000, compared to 25,300 in the previous financial year. Staff related costs for the year ended 31 March 2022 were approximately US\$400 million, as compared to approximately US\$370 million in the financial year 2021.

Review of Operations

North America

Group revenue in North America increased by 7.4% to US\$1,068.5 million in the financial year 2022, with higher sales of ELPs, TEL products and CMS. North America was VTech's largest market, accounting for 45.1% of Group revenue.

ELPs revenue in North America rose by 3.5% to US\$555.6 million. Higher sales in the US offset a decline in the Canadian market, where the transition to a new third-party logistics vendor resulted in logistics issues that reduced shipment of VTech and LeapFrog products. The Group maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US⁵. In Canada, despite the logistics issues, VTech remained the number one supplier in the infant, toddler and preschool toys category⁶.

⁵ 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 Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2021

⁶ The NPD Group, Retail Tracking Service

The growth in ELPs came from higher sales of VTech and LeapFrog branded standalone products. At VTech the sales increase came primarily from three product categories. Infant, toddler and preschool products were led by higher sales of new products including Sort & Recycle Ride-On Truck™. KidiZoom Cameras again performed well, with especially good results from KidiZoom PrintCam™ and KidiZoom Creator Cam™. Switch & Go Dinos achieved growth following new product launches. The introduction of Marble Rush also added incremental revenue. These increases offset declines in the Kidi lines and Go! Go! Smart family of products, as well as Go! Go! Cory Carson® vehicles and playsets. LeapFrog saw growth in infant and toddler products. Among these, the Learning Friends 100 Words Book™ series sold especially well and was augmented by a new addition to the range “100 Words About Places I Go”. The roll out of the new LeapLand Adventures™ TV video game also boosted sales. These successes offset a decline in preschool products as sales of licensed products fell.

Platform products declined as higher sales of LeapFrog products were insufficient to offset lower sales of the VTech ranges. LeapFrog benefited from growth in Magic Adventures Globe and interactive reading systems, as the content of the Magic Adventures Globe was expanded. LeapStart was also refreshed with new hardware. This compensated for a decline in sales of children’s educational tablets that was mainly due to the semiconductor shortages, which also led to a slowdown in new LeapFrog Academy subscriptions.

VTech platform products trended lower owing to sales declines for KidiZoom Smartwatches and KidiBuzz. Shipment of the new products in these ranges, namely KidiBuzz 3 and KidiZoom Smartwatch DX3, was held up by semiconductor shortages and shipment delays. Low channel inventory also led to lower sales. This offset growth for Touch & Learn Activity Desk, to which a new model was added during the financial year 2022.

During the 12 months, the Group’s ELPs received a large number of awards from toy and parenting industry experts, key retailers and toy advisory boards, in multiple categories. Both Hover Pup™ and KidiZoom PrintCam made it into Walmart’s “Top Rated by Kids” list. KidiZoom PrintCam received 10 awards, while all four introductory products in the Marble Rush line received the esteemed STEAM Toy Accreditation Seal of Approval. In addition, LeapLand Adventures made the “2021 Best Toy Awards” in *Good Housekeeping* magazine.

TEL products revenue in North America grew by 1.6% to US\$274.9 million. The increase came as gains for commercial phones and other telecommunication products offset lower sales of residential phones. Sales to online channels continued to see good increases.

Sales of commercial phones and other telecommunication products increased as business activity returned to normal, following the relaxation of COVID-19 restrictions. Well-received new product launches also drove growth. Baby monitors, headsets, Snom branded SIP phones and hotel phones all achieved higher sales.

Baby monitors were boosted by additional placements in key retailers, expanded online sales and new product launches. As a result, VTech strengthened its position as the largest baby monitor manufacturer in the US and Canada⁷. During the financial year 2022, the first LeapFrog branded baby monitor, featuring a baby care app, was launched to a positive market reception. Headsets grew on the back of increased orders from an existing customer. The Snom branded SIP phones gained market share due to a stable supply of products. Sales of hotel phones recovered as they benefited from the lifting of COVID-19 restrictions, while the launch of models with a new industrial design further supported growth. Although the residential phones market returned to its downward trend, VTech maintained its leadership position in the US residential phones market⁸.

There was considerable industry recognition for the Group's baby monitor products and their online sales growth during the financial year 2022. The LeapFrog LF925HD Remote Access Smart Video Baby Monitor was a "2022 National Parenting Product Awards Winner". In addition, VTech won the "BrandSpark Most Trusted Awards 2022 (Category of Baby Monitor)" given by BrandSpark International. In recognition of the online sales growth of VTech baby monitors, VTech won the "Top E-commerce U.S. Market Share Gain (Category of Baby Monitors)" award in the "Consumer Electronics Industry Performance Awards" given by the NPD Group, Inc. in January 2022⁹.

CMS revenue in North America increased by 26.8% to US\$238.0 million, with growth in most product categories. Business activity resumed as social distancing measures eased. There was also a full year sales contribution from the plant in Tecate, Mexico, following the completion of the acquisition in April 2021.

Professional audio equipment benefited from higher sales to a customer that had acquired a new business. The relaxation of social distancing measures lifted sales of professional audio equipment used in concert halls, lecture theatres and churches. Sales of solid-state lighting grew as tenders and project-based activities resumed. Industrial products also benefited from the resumption of business activities, boosting orders for PCBA (printed circuit board assembly) for coin and note recognition machines. Medical and health products saw sales increase as orders for hearing aids grew. Sales of communication products rose on increased orders for VoIP (Voice over Internet Protocol) phones for commercial use, following the successful re-launch of products by a customer.

Europe

Group revenue in Europe declined by 5.6% to US\$1,025.1 million in the financial year 2022, as higher sales of ELPs were offset by lower sales of TEL products and CMS. Europe was the Group's second largest market, representing 43.2% of Group revenue.

ELPs revenue in Europe grew by 6.8% to US\$375.1 million, with sales picking up in the second half as new products arrived on the shelves and channel inventory improved. Standalone products saw higher sales for the full financial year, while platform products posted a decline mainly owing to materials shortages. Geographically, sales increased in France, Germany, Spain and the Netherlands while the UK recorded a sales decline. In the calendar year 2021, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany and the Benelux countries, while regaining the number one position in Spain¹⁰.

⁷ The NPD Group/Retail Tracking Service, April 2021 – March 2022 combined vs YA

⁸ MarketWise Consumer Insights, LLC, April 2021 – March 2022

⁹ The NPD Group/Checkout, based on online dollar market share, 12 months ending September 2021

¹⁰ The NPD Group, Retail Tracking Service

In standalone products, both VTech and LeapFrog branded products registered growth. For the VTech brand, sales of infant, toddler and preschool products, the KidiZoom Camera range, Kidi line products, Switch & Go Dinos and electronic learning aids were all higher. Growth in the region was augmented by the successful launch of the new Marble Rush line. These increases offset declines in the Toot-Toot family of products and Toot-Toot Cory Carson® vehicles and playsets. The LeapFrog brand saw growth in infant, toddler and preschool products, augmented by the launch of LeapLand Adventures.

Platform products saw lower sales of both VTech and LeapFrog products. Materials shortages and logistics problems resulted in late availability of certain new products and low channel inventory. These included a new generation of the interactive reading system LeapStart®/MagiBook, KidiCom® Advance 3.0, Magic Adventures Globe, KidiCom MAX and children's educational tablets. These declines offset gains for Touch & Learn Activity Desk. Sales of KidiZoom Smartwatches were stable.

During the financial year 2022, the Group's ELPs gained several important awards in Europe. In France, Marble Rush Ultimate Set™, *Ruby, mon chat paillettes magiques* (Glitter Me Kitten™), KidiStar DJ Mixer™, Funny Sunny and Genio My First Laptop won a total of five awards in different categories in the "Grand Prix du Jouet 2021" awards given by *La Revue du Jouet* magazine, the highest among all manufacturers. In the UK, Count-Along Basket & Scanner™ was a "Gold Winner (Best Toy for Pretend Play)" in the "MadeForMums Toy Awards 2021". KidiZoom Video Studio was named "Best Toy of the Year 2021 (Imitation Toys Category)" by the Spanish Association of Toy Manufacturers. Marble Rush Ultimate Set was also named one of "The Best Toys 2021 (Category of 4-6 Years)" in "The Best Toys in the Netherlands" awards.

Revenue from TEL products in Europe fell by 14.2% to US\$93.8 million. Lower sales of residential phones and other telecommunication products offset higher sales of commercial phones.

In Europe, the Group's residential phones are sold mainly on an ODM (Original Design Manufacturing) basis. These products were affected by the shortage of semiconductors, which resulted in the deferral of shipments and a reduction in sales. In a notable development, however, the Group successfully launched its VTech branded DECT phones on a major e-tailer in the UK in March 2022, paving the way for the increasing penetration of its own branded phone products in European markets.

Sales of other telecommunication products decreased as the semiconductor shortages negatively impacted the production of baby monitors, CAT-iq (Cordless Advanced Technology—internet and quality) handsets, CareLine® residential phones and IADs (integrated access devices), all of which saw sales decline.

Despite the reduction in sales, VTech branded baby monitors strengthened their position in the UK, with the successful introduction of a new product line-up, in a further expansion of the Group's market presence in Europe. Commercial phones benefited from the resumption of business activity and leisure travel as COVID-19 restrictions eased across the region, which led to rising sales of Snom branded SIP phones and a recovery in sales of hotel phones.

In the UK, in addition to three top awards from *Loved by Parents* magazine, VTech's RM5754 HD baby monitor was named "Best Baby Monitor – Bronze Winner" in the "Mother & Baby Awards".

CMS revenue in Europe fell by 11.1% to US\$556.2 million. Hearables recorded lower sales due to materials shortages and reduced orders for Bluetooth headsets. Sales of professional audio equipment increased, driven by higher orders for audio mixers. IoT (Internet of Things) products grew as smart meter installations resumed in the UK, following the relaxation of social distancing measures in the country. Sales of internet connected thermostats and air-conditioning controls increased as demand recovered. Growth in medical and health products was driven by increased orders of hearing aids, while sales of health and beauty products were stable. Home appliances sales increased slightly, while sales of automotive related products were supported by increasing orders for smart electric vehicle chargers. In contrast, sales of communication products were down, due to lower orders for Wi-Fi routers. During the financial year 2022, the Group added a new customer in the category of smart energy management systems.

Asia Pacific

Group revenue in Asia Pacific decreased by 5.0% to US\$255.0 million in the financial year 2022, as lower sales of TEL products and CMS offset higher revenue from ELPs. The Asia Pacific region represented 10.8% of Group revenue.

Revenue from ELPs in Asia Pacific increased by 2.3% to US\$83.9 million, as growth in Australia and Japan offset lower sales in mainland China. Australia achieved sales growth as lockdowns eased and retail stores reopened in the second half of the financial year, leading to higher sales of VTech products. In the calendar year 2021, VTech maintained its position as the number one manufacturer in the infant and toddler toys category in Australia¹¹. Growth in Japan came from rising sales to a major toy retailer and good sell-through of a jointly developed smartwatch, featuring the popular Japanese “Sumikkogurashi” characters. In mainland China, sales in both online and offline channels decreased. This was despite the success of the new range of Switch & Go Dinos based on a popular animation series called Mini Force and the enhanced version of Magic Adventures Globe.

TEL products revenue in Asia Pacific decreased by 12.6% to US\$27.7 million, as higher sales in Australia were offset by lower sales in Japan and Hong Kong. In Australia, the growth was led by higher sales of baby monitors, which compensated for a decline in residential phones sales. In this market, the RM7764HD Baby Monitor was named an “Editor’s Picks Product” in the “My Child Excellence Awards 2021” from *My Child* magazine. It was also the “Best Baby Monitor 2021 – Bronze Winner” in the “Bounty Baby Awards”. In Japan, sales decreased owing to a shortage of semiconductors for an existing customer of residential phones. Sales in Hong Kong trended lower, as orders for IADs declined, although VTech launched a new generation of home gateway that supports Wi-Fi 6 and has a changeable faceplate during the first six months.

CMS revenue in Asia Pacific declined by 7.3% to US\$143.4 million. Lower sales of professional audio equipment offset growth in medical and health products and communication products. The professional audio category was affected by lower sales of DJ equipment, as the Group’s Malaysian facilities shut down for a total of 45 days during the financial year 2022, following the imposition by the Malaysian government of a Movement Control Order to curb the spread of COVID-19. There were also lower orders for USB streaming microphones for online KOLs (Key Opinion Leaders), resulting from over-inventory at a customer. In contrast, sales of medical and health products rose. There were more orders for diagnostic ultrasound systems, as hospitals rebalanced budgets away from COVID-19 related equipment purchases, while demand for hearables increased as business activity recovered. Sales of communication products were higher as orders for marine radios improved following the launch of a new generation of products by the customer.

¹¹ The NPD Group, Retail Tracking Service

Other Regions

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, fell by 2.7% to US\$21.9 million in the financial year 2022. The decrease came as lower sales of TEL products and CMS offset growth in ELPs. Other Regions accounted for 0.9% of Group revenue.

ELPs revenue in Other Regions increased by 29.8% to US\$10.9 million. Higher sales in Latin America offset declines in the Middle East and Africa.

TEL products revenue in Other Regions fell by 21.0% to US\$10.9 million. The decline was attributable to sales decreases in Latin America and the Middle East, which offset growth in Africa.

CMS revenue in Other Regions was US\$0.1 million, as compared to US\$0.3 million in the previous financial year.

CORPORATE GOVERNANCE PRACTICES

The Company is incorporated in Bermuda and has its shares listed on the The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The corporate governance rules applicable to the Company are the Corporate Governance Code and Corporate Governance Report effective for the year ended 31 March 2022 (the “Code”) as set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 March 2022, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. As half of the Board members are Independent Non-executive Directors, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. Furthermore, as Dr. Allan WONG Chi Yun is the founder of the Group and has substantial professional experience in the industry, the Board believes 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.

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 2022.

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 2022 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 2022 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 2022 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 for both its Directors and senior management. After having made specific enquiries, all Directors and senior management confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2022.

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 221,900 Company’s shares at a consideration of approximately US\$1.6 million.

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

Hong Kong, 16 May 2022

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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