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# VTech Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 303)**

## ANNUAL RESULTS
## FOR THE YEAR ENDED 31 MARCH 2023

**PERFORMANCE HIGHLIGHTS**

- Group revenue declined by 5.4% to US$2,241.7 million
- Gross profit margin was 28.3%, as compared with 28.2% in FY2022
- Profit attributable to shareholders of the Company fell by 13.6% to US$149.2 million
- Final dividend of US42.0 cents per ordinary share, resulting in a full-year dividend of US59.0 cents per ordinary share

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 2023 together with the comparative figures for the previous year as follows:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2023

| | Note | **2023**<br>**US$ million** | 2022<br>US$ million |
|---|---|---|---|
| **Revenue** | 2 | **2,241.7** | 2,370.5 |
| Cost of sales | | **(1,608.0)** | (1,701.4) |
| **Gross profit** | | **633.7** | 669.1 |
| Other net income / (expenses) | 3 | **1.7** | (0.5) |
| Selling and distribution costs | | **(294.0)** | (304.9) |
| Administrative and other operating expenses | | **(77.6)** | (75.6) |
| Research and development expenses | | **(83.3)** | (84.3) |
| **Operating profit** | 2(b) | **180.5** | 203.8 |
| Net finance expense | 3 | **(12.0)** | (9.6) |
| Share of results of an associate | | **-** | 0.4 |
| **Profit before taxation** | 3 | **168.5** | 194.6 |
| Taxation | 4 | **(19.3)** | (21.9) |
| **Profit for the year and attributable to shareholders of the Company** | | **149.2** | 172.7 |
| **Earnings per share (US cents)** | 6 | | |
| - Basic | | **59.1** | 68.5 |
| - Diluted | | **59.1** | 68.5 |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2023

| | **2023** **US$ million** | 2022 US$ million |
|---|---|---|
| **Profit for the year** | **149.2** | 172.7 |
| **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 | **(2.0)** | 0.5 |
| | **(2.0)** | 0.5 |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Fair value gains on hedging, net of deferred tax | **0.4** | 3.0 |
| Realisation of hedging reserve, net of deferred tax | **(2.5)** | 2.7 |
| Exchange translation differences | **(20.5)** | (4.2) |
| | **(22.6)** | 1.5 |
| Other comprehensive income for the year | **(24.6)** | 2.0 |
| **Total comprehensive income for the year** | **124.6** | 174.7 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2023

| | Note | **2023 US$ million** | 2022 US$ million |
|---|---|---|---|
| **Non-current assets** | | | |
| Tangible assets | 7 | **74.9** | 87.3 |
| Right-of-use assets | | **162.8** | 180.8 |
| Intangible assets | | **15.3** | 16.0 |
| Goodwill | | **36.1** | 36.1 |
| Interest in an associate | | **3.8** | 3.8 |
| Investments | | **1.9** | 2.2 |
| Net assets on defined benefit scheme | | **5.6** | 7.4 |
| Deferred tax assets | | **9.2** | 10.9 |
| | | **309.6** | 344.5 |
| **Current assets** | | | |
| Stocks | | **475.5** | 553.3 |
| Debtors, deposits and prepayments | 8 | **324.3** | 384.9 |
| Taxation recoverable | | **10.5** | 8.2 |
| Deposits and cash | | **198.5** | 195.8 |
| | | **1,008.8** | 1,142.2 |
| **Current liabilities** | | | |
| Creditors and accruals | 9 | **(468.5)** | (567.2) |
| Provisions for defective goods returns and other liabilities | | **(25.6)** | (28.3) |
| Lease liabilities | | **(16.6)** | (20.6) |
| Taxation payable | | **(6.5)** | (11.9) |
| | | **(517.2)** | (628.0) |
| **Net current assets** | | **491.6** | 514.2 |
| **Total assets less current liabilities** | | **801.2** | 858.7 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **(3.2)** | (3.4) |
| Lease liabilities | | **(163.3)** | (176.5) |
| | | **(166.5)** | (179.9) |
| **Net assets** | | **634.7** | 678.8 |
| **Capital and reserves** | | | |
| Share capital | | **12.6** | 12.6 |
| Reserves | | **622.1** | 666.2 |
| **Total equity** | | **634.7** | 678.8 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2023

| | | Attributable to shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital US$ million | Share premium US$ million | Shares held for Share Purchase Scheme US$ million | Exchange reserve US$ million | Capital reserve US$ million | Hedging reserve US$ million | Revenue reserve US$ million | Total equity US$ million |
| **At 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 | | - | - | - | - | - | - | (186.8) | (186.8) |
| Interim dividend in respect of the current year | 5 | - | - | - | - | - | - | (42.9) | (42.9) |
| Equity-settled share based payments: Share Option Scheme | | - | - | - | - | 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 / 1 April 2022** | | 12.6 | 160.8 | (0.3) | (11.3) | 0.3 | 3.0 | 513.7 | 678.8 |
| **Changes in equity for the year ended 31 March 2023** | | | | | | | | | |
| **Comprehensive income** | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 149.2 | 149.2 |
| **Other comprehensive income** | | | | | | | | | |
| Fair value gains on hedging, net of deferred tax | | - | - | - | - | - | 0.4 | - | 0.4 |
| Realisation of hedging reserve, net of deferred tax | | - | - | - | - | - | (2.5) | - | (2.5) |
| Exchange translation differences | | - | - | - | (20.5) | - | - | - | (20.5) |
| Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax | | - | - | - | - | - | - | (2.0) | (2.0) |
| Other comprehensive income for the year | | - | - | - | (20.5) | - | (2.1) | (2.0) | (24.6) |
| **Total comprehensive income for the year** | | - | - | - | (20.5) | - | (2.1) | 147.2 | 124.6 |
| Final dividend in respect of the previous year | 5 | - | - | - | - | - | - | (128.9) | (128.9) |
| Interim dividend in respect of the current year | 5 | - | - | - | - | - | - | (42.9) | (42.9) |
| Equity-settled share based payments: Share Option Scheme | | - | - | - | - | 0.4 | - | - | 0.4 |
| Shares issued under Share Option Scheme | | - | 0.9 | - | - | - | - | - | 0.9 |
| Shares issued under Share Purchase Scheme | | - | 1.6 | (1.6) | - | - | - | - | - |
| Shares purchased for Share Purchase Scheme | | - | - | (1.5) | - | - | - | - | (1.5) |
| Vesting of shares of Share Purchase Scheme | | - | - | 3.3 | - | - | - | - | 3.3 |
| **At 31 March 2023** | | **12.6** | **163.3** | **(0.1)** | **(31.8)** | **0.7** | **0.9** | **489.1** | **634.7** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2023

| | Note | **2023 US$ million** | 2022 US$ million |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | | **180.5** | 203.8 |
| Depreciation of tangible assets | 3 | **34.7** | 41.4 |
| Depreciation of right-of-use assets | 3 | **21.1** | 22.4 |
| Amortisation of intangible assets | 3 | **0.7** | 0.8 |
| Dividend income from investment | 3 | **-** | (3.6) |
| Fair value loss on investments measured at fair value through profit or loss | 3 | **0.3** | 4.6 |
| Loss / (Gain) on disposal of tangible assets | 3 | **0.6** | (0.1) |
| Share-based payment expenses: Share Purchase Scheme | | **3.3** | 4.0 |
| Share-based payment expenses: Share Option Scheme | | **0.4** | 0.3 |
| Decrease / (Increase) in stocks | | **77.8** | (139.3) |
| Decrease / (Increase) in debtors, deposits and prepayments | | **60.0** | (63.6) |
| (Decrease) / Increase in creditors and accruals | | **(100.3)** | 109.2 |
| (Decrease) / Increase in provisions for defective goods returns and other liabilities | | **(2.7)** | 1.9 |
| Increase in net assets on defined benefit scheme | | **(0.3)** | - |
| **Cash generated from operations** | | **276.1** | 181.8 |
| Interest paid | | **(4.1)** | (0.5) |
| Interest on lease liabilities | | **(7.9)** | (9.1) |
| Taxes paid | | **(25.3)** | (32.6) |
| **Net cash generated from operating activities** | | **238.8** | 139.6 |
| **Investing activities** | | | |
| Purchase of tangible assets | | **(27.9)** | (35.9) |
| Proceeds from disposal of tangible assets | | **0.4** | 0.3 |
| Dividend received from investment | | **-** | 3.6 |
| **Net cash used in investing activities** | | **(27.5)** | (32.0) |
| **Financing activities** | | | |
| Capital element of lease rentals paid | | **(18.8)** | (18.5) |
| Payment for shares acquired for Share Purchase Scheme | | **(1.5)** | (1.6) |
| Proceeds from shares issued upon exercise of share options | | **0.9** | - |
| Dividends paid | 5 | **(171.8)** | (229.7) |
| **Net cash used in financing activities** | | **(191.2)** | (249.8) |
| Effect of exchange rate changes | | **(17.4)** | (5.8) |
| **Increase / (Decrease) in cash and cash equivalents** | | **2.7** | (148.0) |
| Cash and cash equivalents at 1 April | | **195.8** | 343.8 |
| **Cash and cash equivalents at 31 March** | | **198.5** | 195.8 |

## 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 2023. 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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:

- Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*
- Amendments to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract*

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 2023**

| | North America US$ million | Europe US$ million | Asia Pacific US$ million | Other Regions US$ million | Total US$ million |
|---|---|---|---|---|---|
| Electronic Learning Products | **471.4** | **330.1** | **79.4** | **10.5** | **891.4** |
| Telecommunication Products | **239.9** | **96.4** | **28.4** | **13.6** | **378.3** |
| Contract Manufacturing Services | **273.5** | **490.5** | **208.0** | **-** | **972.0** |
| Total | **984.8** | **917.0** | **315.8** | **24.1** | **2,241.7** |

## 2. Revenue and Segment Information *(Continued)*

### (a) Revenue *(Continued)*

**Disaggregation of revenue** *(Continued)*

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 |

The Group's customer base is diversified and include one (2022: three) customer with whom transactions have exceeded 10% of the Group's revenue. The revenue from this customer accounted for approximately 13% of the Group's revenue for the year ended 31 March 2023. For the year ended 31 March 2022, approximately 13%, 12% and 11% of the Group's revenue are derived from three external customers respectively. 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 2023**

| | **North America US$ million** | **Europe US$ million** | **Asia Pacific US$ million** | **Other Regions US$ million** | **Total US$ million** |
|---|---|---|---|---|---|
| Reportable segment revenue | **984.8** | **917.0** | **315.8** | **24.1** | **2,241.7** |
| Reportable segment profit | **80.0** | **61.8** | **34.5** | **4.2** | **180.5** |
| Depreciation and amortisation | **3.3** | **3.7** | **49.5** | **-** | **56.5** |
| Reportable segment assets | **163.8** | **108.4** | **969.4** | **-** | **1,241.6** |
| Reportable segment liabilities | **(89.2)** | **(26.5)** | **(558.3)** | **-** | **(674.0)** |

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) |

## 2. Revenue and Segment Information *(Continued)*

### (c) Reconciliations of reportable segment assets and liabilities

| | **2023 US$ million** | 2022 US$ million |
|---|---|---|
| **Assets** | | |
| Reportable segment assets | **1,241.6** | 1,409.5 |
| Intangible assets | **15.3** | 16.0 |
| Goodwill | **36.1** | 36.1 |
| Interest in an associate | **3.8** | 3.8 |
| Investments | **1.9** | 2.2 |
| Taxation recoverable | **10.5** | 8.2 |
| Deferred tax assets | **9.2** | 10.9 |
| Consolidated total assets | **1,318.4** | 1,486.7 |
| **Liabilities** | | |
| Reportable segment liabilities | **(674.0)** | (792.6) |
| Taxation payable | **(6.5)** | (11.9) |
| Deferred tax liabilities | **(3.2)** | (3.4) |
| Consolidated total liabilities | **(683.7)** | (807.9) |

## 3. Profit before taxation

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

| | **2023 US$ million** | 2022 US$ million |
|---|---|---|
| Dividend income from investment *(Notes (i) & (ii))* | **-** | (3.6) |
| Fair value loss on investments measured at fair value through profit or loss *(Notes (i) & (ii))* | **0.3** | 4.6 |
| Government subsidies *(Notes (i) & (iii))* | **(2.0)** | (0.5) |
| Depreciation of tangible assets | **34.7** | 41.4 |
| Depreciation of right-of-use assets | **21.1** | 22.4 |
| Amortisation of intangible assets | **0.7** | 0.8 |
| Loss / (gain) on disposal of tangible assets | **0.6** | (0.1) |
| Interest on lease liabilities *(Note (iv))* | **7.9** | 9.1 |
| Other interest expenses, net *(Note (iv))* | **4.1** | 0.5 |
| Net foreign exchange loss | **1.2** | 0.3 |
| Net (gain) / loss on forward foreign exchange contracts | | |
| - Net (gain) / loss on cash flow hedging instruments reclassified from equity | **(2.7)** | 2.9 |
| - Net loss / (gain) on forward foreign exchange contracts | **1.3** | (1.2) |

*Notes*:

*(i) Included in other net income / (expenses) 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 ended 31 March 2022, 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$0.3 million (2022: 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

| | **2023**<br>**US$ million** | 2022<br>US$ million |
|---|---|---|
| Current tax | | |
| - Hong Kong | **12.0** | 12.6 |
| - Overseas | **7.0** | 10.3 |
| Under / (Over)-provision in respect of prior years | | |
| - Hong Kong | **0.2** | (0.2) |
| - Overseas | **(1.3)** | (0.1) |
| Deferred tax | | |
| - Origination and reversal of temporary differences | **1.4** | (0.7) |
| | **19.3** | 21.9 |
| | | |
| Current tax | **17.9** | 22.6 |
| Deferred tax | **1.4** | (0.7) |
| | **19.3** | 21.9 |

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2022: 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

| | **2023**<br>**US$ million** | 2022<br>US$ million |
|---|---|---|
| Interim dividend of US17.0 cents (2022: US17.0 cents) per share declared and paid | **42.9** | 42.9 |
| Final dividend of US42.0 cents (2022: US51.0 cents) per share proposed after the end of the reporting period | **106.1** | 128.7 |

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 16 May 2022, the Directors proposed a final dividend of US51.0 cents per ordinary share for the year ended 31 March 2022, which was estimated to be US$128.7 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2022. The final dividend was approved by shareholders at the annual general meeting on 13 July 2022. The final dividend paid in respect of the year ended 31 March 2022 totaled US$128.9 million.

## 6. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US$149.2 million (2022: US$172.7 million).

The calculation of basic earnings per share is based on the weighted average of 252.4 million (2022: 252.1 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share for the year ended 31 March 2023 was based on 252.4 million ordinary shares (2022: 252.1 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 2023, the Group acquired items of tangible assets with a cost of US$27.9 million (2022: US$35.9 million).

## 8. Debtors, deposits and prepayments

At 31 March 2023, total debtors, deposits and prepayments of US$324.3 million (31 March 2022: US$384.9 million) included net trade debtors of US$277.2 million (31 March 2022: US$325.4 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:

| | **2023<br>US$ million** | 2022<br>US$ million |
|---|---|---|
| 0-30 days | **155.8** | 190.0 |
| 31-60 days | **98.6** | 92.0 |
| 61-90 days | **15.8** | 23.8 |
| >90 days | **7.0** | 19.6 |
| Total | **277.2** | 325.4 |

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 2023, total creditors and accruals of US$468.5 million (31 March 2022: US$567.2 million) included trade creditors of US$252.3 million (31 March 2022: US$327.2 million).

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

| | **2023<br>US$ million** | 2022<br>US$ million |
|---|---|---|
| 0-30 days | **74.9** | 106.2 |
| 31-60 days | **68.4** | 74.3 |
| 61-90 days | **38.4** | 61.7 |
| >90 days | **70.6** | 85.0 |
| Total | **252.3** | 327.2 |

## FURTHER INFORMATION TO THE 2022 ANNUAL REPORT

Reference is made to the annual report of the Company for the year ended 31 March 2022 which was published on 8 June 2022 (the "2022 Annual Report"). In addition to the disclosures in the Financial Note 21(b) to the consolidated financial statements of the Company in relation to the 2021 Share Option Scheme, the Company would like to provide the following additional information for the shareholders' information:

The aggregate fair value at the date of grant on 14 March 2022 of all share options granted under the 2021 Share Option Scheme during the financial year ended 31 March 2022 to all relevant Directors (namely, Dr. Allan WONG Chi Yun, Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong) and to all other employees was HK$4.7 million and HK$1.8 million respectively.

The information provided above does not affect other information contained in the 2022 Annual Report and, save as disclosed above, the contents of the 2022 Annual Report remain unchanged.

## 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 2023 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 US42.0 cents per ordinary share in respect of the year ended 31 March 2023, payable on 3 August 2023 to the shareholders whose names appear on the register of members of the Company as at the close of business on 25 July 2023 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on 19 July 2023 (the "2023 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 21 July 2023.

## 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 2023 AGM, the register of members of the Company will be closed from 14 July 2023 to 19 July 2023 (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 19 July 2023 are entitled to attend and vote at the 2023 AGM following completion of the registration procedures for share transfers. In order to be entitled to attend and vote at the 2023 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 13 July 2023.

(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 25 July 2023, 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 24 July 2023.

## LETTER TO SHAREHOLDERS

VTech reported a decline in revenue and profit for the financial year 2023, as the challenging macro-economic environment in North America and Europe resulted in lower sales of electronic learning products (ELPs) and telecommunication (TEL) products. This offset record revenue at contract manufacturing services (CMS) as the supply of critical components improved.

### Results and Dividend

Group revenue for the year ended 31 March 2023 declined by 5.4% to US$2,241.7 million, from US$2,370.5 million in the previous financial year. Lower sales in North America and Europe offset higher sales in Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company fell by 13.6% to US$149.2 million. The decline in profit was mainly attributable to the decrease in revenue combined with a higher advertising and promotional spend for ELPs and TEL products.

Basic earnings per share decreased by 13.7% to US59.1 cents, compared to US68.5 cents in the financial year 2022.

The Board of Directors has proposed a final dividend of US42.0 cents per ordinary share, providing a full-year dividend of US59.0 cents per ordinary share, a 13.2% decrease from the US68.0 cents declared in the previous financial year. This represents a dividend payout ratio of 99.9%.

**Costs**

The Group's gross profit margin in the financial year 2023 was 28.3%, as compared with 28.2% in the previous financial year. The slight increase was mainly attributable to lower cost of materials and freight charges, combined with an increase in selling prices. Direct labour costs and manufacturing overheads were also lower. However, these gains were offset by the negative impact of lower Group revenue, the depreciation of the major currencies against the US dollar, an increase in inventory provisions and a change in product mix.

**Our Businesses**

The operating environment in the financial year 2023 was challenging. Persistently high inflation and rising interest rates progressively eroded consumer and business confidence in North America and Europe. As consumers became more price-sensitive and reduced discretionary purchases, retailers tightened inventories and reduced orders. The strong US dollar in the first half of the financial year 2023, meanwhile, added to the pressure on retailers outside the US. As growth prospects turned uncertain, businesses also reduced their spending on new equipment. Although the supply of components improved over the course of the financial year, shortages of certain critical components continued, affecting some of the Group's products.

The unfavourable market conditions weighed on the ELPs business, which experienced sales declines in key markets. In North America and Europe, the Group's largest markets, increasingly price-sensitive consumers traded down to lower price items in response to high inflation and soaring energy prices. The weak consumer sentiment resulted in high channel inventory, which led major retailers to suspend or delay orders during the holiday season.

Sales of the Group's standalone and platform products declined. However, its growing range of eco-friendly toys, Marble Rush®, electronic learning aids, the Kidi line and LeapLand Adventures™ did achieve growth. The successful launch of Magic Adventures™ Microscope also generated incremental business. Standalone products' percentage share of total ELPs revenue stood at 87% in the financial year 2023, compared to 84% in the financial year 2022.

Despite the challenges, VTech has continued to lead the way in creating innovative and age-appropriate technologies for children's learning and entertainment, as a recognised leader in electronic educational toys. In the calendar year 2022, the Group maintained its global number one position in electronic learning toys from infancy through toddler to preschool[1].

Revenue from TEL products was also lower, with declines in residential phones, commercial phones and other telecommunication products. The share of commercial phones and other telecommunication products within total TEL products revenue was 57% in the financial year 2023, as compared with 59% in the financial year 2022.

[1] Ranking based on Circana (previously IRI and 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 2022

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 2022

The residential phone market in the US has continued to contract and shipments were constrained by the tight supply of semiconductors in the first half of the financial year 2023. The Group did, however, regain distribution in a key retailer in the US and maintained its leadership position in the US residential phone market[2]. In Europe, meanwhile, VTech branded cordless phones made good progress, with sales to the UK and Germany increasing.

In commercial phones, sales of hotel phones grew as a stable supply of products and new models featuring contemporary designs met with a positive response. However, SIP (Session Initiation Protocol) phones were affected by a delayed product launch, while shipments of multi-line commercial phones were constrained by semiconductor supply issues, particularly in the first half of the financial year 2023. Sales of headsets also fell as a customer reduced orders.

Other telecommunication products registered a sales decrease. CAT-iq (Cordless Advanced Technology – internet and quality) handsets and CareLine® products saw sales increases, as semiconductor supply improved in the second half of the financial year 2023. However, this was insufficient to offset lower sales of baby monitors and integrated access devices (IADs). Sales of baby monitors decreased as consumers traded down to lower price items in response to inflationary pressures, while the weaker market saw existing customers in Europe and Asia Pacific reduce orders for IADs. VTech nonetheless gained market share and maintained its position as the number one baby monitor manufacturer in the US and Canada[3].

In the financial year 2023, CMS achieved record revenue despite shortages of certain critical components. The growth was mainly driven by higher market demand after the end of the COVID-19 pandemic for various product categories, which more than offset a decline in hearables. Sales increased in the majority of product categories, with especially strong growth in professional audio equipment following the post-pandemic relaxation of social distancing measures. This also benefited the Malaysian facility that produces DJ equipment, where production now exceeds pre-pandemic levels. VTech's CMS business was named by *Music Trade Magazine* as the world's number one contract manufacturer of professional audio equipment in the calendar year 2021[4]. In addition, VTech CMS ranked 28th in the world among electronics manufacturing services providers, and first in Hong Kong, according to *Manufacturing Market Insider*[5].

CMS continued to make great strides in the important move to Industry 4.0, which is now in the final stage of implementation at the facilities in mainland China. This is a revolution in manufacturing driven by technology, using machine learning, artificial intelligence (AI), data analytics and automation to optimise supply chains and manufacturing processes. To meet increased demand for contingency manufacturing sites outsides China, the facility in Tecate, Mexico is being upgraded to be able to offer full turnkey electronics manufacturing services (EMS).

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[2] MarketWise Consumer Insights, LLC, April 2022 to March 2023

[3] Circana/Retail Tracking Service, US and Canada, based on dollar and unit brand share, 12 months ended March 2023 vs. prior year

[4] *Music Trade Magazine*, September 2022

[5] *Manufacturing Market Insider*, March 2023 edition

## Keep Steering Towards a Sustainable Future

Despite the complex and challenging operating environment the Group is facing, as a global leader in ELPs and residential telephony, as well as a world-leading CMS provider, VTech remains steadfast in its commitment to creating sustainable value to improve the lives of people and protect the planet for future generations. It achieved meaningful progress towards sustainability in the financial year 2023.

Leveraging its 47 years of excellence in technological innovation, VTech expanded its range of eco-friendly ELPs made from sustainable materials such as recycled polyethylene terephthalate (PET) bottles, reclaimed plastics and Forest Stewardship Council (FSC) certified wood. It also introduced a series of hotel phones made from recycled PET bottles. As for sustainable packaging, over 95% of the packaging materials for its ELPs was recyclable, of which about 85% was made from recycled materials. Blister was also eliminated in about 99% of ELPs packaging.

To combat climate change and reduce its impacts on the planet, VTech increased its use of renewable energy by accelerating the installation of solar panels at its manufacturing sites, and reduced volatile organic compounds (VOCs) emission through the increasing use of waterborne paint in its products and packing. On-going programmes for energy efficiency improvement, water consumption savings and waste reduction management are also in place to preserve natural resources in factory operations.

As a responsible corporate citizen, VTech is dedicated to providing a diverse, equitable and inclusive working environment for its employees. In addition to the gender diversity of its Board of Directors, about 41% of VTech's workforce was women, with 26% of management positions held by women. VTech also promotes a culture of integrity in the workplace for its employees, and engages in ethical sourcing practices with its suppliers throughout the supply chain.

Moving forward, VTech will uphold its culture of integrity, accountability and innovation to guide the company towards a sustainable future. With its solid sustainability foundation, VTech will continue 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 the benefit of society, aiming to drive sustainable value for its stakeholders and the communities.

## Reorganisation of ELPs and TEL products operations

VTech is taking steps to reorganise its ELPs and TEL products operations. The goal is to create a stronger, leaner and more efficient organisation that can bring new products to the market faster and quickly respond to changing market conditions.

As part of this effort, the US ELPs business is undergoing a structural reorganisation, with a new leadership team that will reduce the number of management layers and downsize operations. In addition, the Group will increase the productivity of its products by improving product segmentation and portfolio management, as well as expanding license partnerships to maximise sales opportunities. The Group will also strengthen its product planning and marketing through more targeted advertising and promotional spend, enhanced marketing communications and leveraging its VTech and LeapFrog brands more effectively. To support growth further, VTech will rebuild its e-commerce team to ramp up online sales and implement measures to raise supply chain efficiency.

In order to create a leaner and more efficient TEL products business, VTech is streamlining its R&D (Research and Development) function in mainland China, tightening management and accelerating new product launches. The Group is also revitalising its go-to-market strategy for commercial phones, with dedicated teams to refocus the telecommunication service provider and the VAR (Value-added Reseller) businesses. These initiatives demonstrate VTech's commitment to delivering innovative, high-quality products and services to ensure long-term success in the telecommunication products market.

**Outlook**

The macro-economic outlook for the financial year 2024 is uncertain, but the challenges posed by persistent inflation and high interest rates in the US and Europe look set to continue. Consumers remain price-sensitive and reluctant to make purchases, leading VTech's customers to exercise caution when placing orders and managing inventories.

In view of this, the Group targets revenue to be flat year-on-year. Profitability, however, is forecast to recover. Costs are trending down and margins will be boosted further by the actions taken at the ELPs and the TEL products businesses.

The cost trends for the financial year 2024 appear favourable. Cost of materials is expected to decrease as the recent supply issues have mostly eased, even though the supply of a relatively small number of critical components will remain tight. Direct labour costs are no longer on the rise in mainland China and there is an adequate supply of labour. Manufacturing overheads are expected to improve. Freight costs, meanwhile, have returned to pre-pandemic levels as the global economy has slowed. The only exception is that domestic transportation costs in the US and Europe remain high.

The ELPs business is striving to achieve growth in the financial year 2024, as sales in North America and Europe recover and the business extends its geographical reach.

Growth in North America and Europe will be driven by the introduction of exciting new products across all categories. Core learning products will be strengthened by the launch of new infant, toddler and preschool items, as well as the expanded license offerings. At VTech, the toddler and preschool Go! Go! Smart/Toot-Toot family of products has been completely revamped with new playsets, cars and animals. The infusion of a new licensed character, CoComelon, into this line will add further momentum. To boost growth in the preschool vehicle category, VTech will expand its popular Switch & Go® Dinos range. This recently saw the addition of new dinosaur models as well as a series of eggs that "hatch" into different dinosaurs, with more to come in this direction in the financial year 2024. The Group will also re-enter the bath and robotic toys markets to tap new avenues of growth. At LeapFrog, the focus is on invigorating existing product categories. New core learning products will be launched. There will also be innovative variations on successful themes, such as the eco-friendly toys, Magic Adventures range and role-play toys.

In addition to new product launches, a new sales office in Italy has started operations that will add incremental sales in Europe in the financial year 2024. In Asia Pacific, the Group is expected to grow in Australia and a strong sales recovery is anticipated in mainland China following the easing of COVID-19 restrictions.

Although the uncertain market conditions make forecasting difficult, TEL products revenue is projected to be higher in the financial year 2024. Sales of commercial phones are expected to increase, with growth in the Snom D8 series of SIP desksets, the multi-cell SIP DECT (Digital Enhanced Cordless Telecommunications) mobility system and the work-from-anywhere series, as the Group rolls out these products to more markets. This will be augmented by rising sales of the hospitality category led by hotel phones, following the addition of a new, advanced wireless thermostat designed for hotels.

For residential phones, growth in Europe is expected to offset a sales decline in the US, where the market continues to contract. VTech branded residential phones are expected to continue to grow their market share in the UK and Germany, while expanding to France, Italy and Spain via online channels. This will drive an overall sales increase for residential phones.

Other telecommunication products will benefit from a recovery in baby monitors. VTech's leadership in North America will be strengthened by continued good sell-through of VTech branded products and growing sales of LeapFrog branded premium baby monitors. This will be supported by new product launches. A smart Wi-Fi baby monitor using AI technology, featuring face-covering and roll over monitoring, will hit the shelves in North America by July 2023.

CMS revenue is forecast to be stable, as customers remain cautious in placing orders and managing inventories in view of global economic uncertainties. Sales of the key product categories, namely professional audio equipment, industrial and medical and health products are expected to remain largely stable. Growth will be seen in the areas of smart energy storage systems and smart home control systems, where customers are launching new products. After a two-year period of decline, sales of hearables are expected to stabilise. Work to complete the implementation of Industry 4.0 in the manufacturing facilities in mainland China will continue, while the Mexican facility is on track to offer full turnkey EMS capability by December 2023.

I wish to thank my fellow directors for their sound advice during the year, and all our colleagues for their dedication and hard work. I would also like to thank our customers and suppliers, who continue to co-operate with us to overcome the challenges we all face. Finally, I wish to acknowledge the support given by our shareholders and business partners.

The reorganisations underway at our ELPs and TEL products operations will result in tighter, leaner management. This will allow us to leverage our brands and core competence more effectively and develop competitive, innovative products. CMS, meanwhile, is creating a more technology-driven and globally diversified manufacturing base. Although it has been a challenging twelve months, therefore, we are confident of a solid recovery in the financial year ahead.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Overview

For the year ended 31 March 2023

| | **2023 US$ million** | 2022 US$ million | Change US$ million |
|---|---|---|---|
| **Revenue** | **2,241.7** | 2,370.5 | (128.8) |
| **Gross profit** | **633.7** | 669.1 | (35.4) |
| Gross profit margin | **28.3%** | 28.2% | |
| Other net income / (expenses) | **1.7** | (0.5) | 2.2 |
| Total operating expenses | **(454.9)** | (464.8) | 9.9 |
| Total operating expenses as a percentage of revenue | **20.3%** | 19.6% | |
| **Operating profit** | **180.5** | 203.8 | (23.3) |
| Operating profit margin | **8.1%** | 8.6% | |
| Net finance expense | **(12.0)** | (9.6) | (2.4) |
| Share of results of an associate | **-** | 0.4 | (0.4) |
| **Profit before taxation** | **168.5** | 194.6 | (26.1) |
| Taxation | **(19.3)** | (21.9) | 2.6 |
| Effective tax rate | **11.5%** | 11.3% | |
| **Profit for the year and attributable to shareholders of the Company** | **149.2** | 172.7 | (23.5) |
| Net profit margin | **6.7%** | 7.3% | |

#### Revenue

Group revenue for the year ended 31 March 2023 decreased by 5.4% to US$2,241.7 million compared with the previous financial year. The decrease in revenue was largely driven by the decrease in revenue in North America and Europe, which offset the higher sales in Asia Pacific and Other Regions.

| | **2023** | | 2022 | | Increase / (decrease) | |
|---|---|---|---|---|---|---|
| | **US$ million** | **%** | US$ million | % | US$ million | % |
| North America | **984.8** | **43.9%** | 1,068.5 | 45.1% | (83.7) | (7.8%) |
| Europe | **917.0** | **40.9%** | 1,025.1 | 43.2% | (108.1) | (10.5%) |
| Asia Pacific | **315.8** | **14.1%** | 255.0 | 10.8% | 60.8 | 23.8% |
| Other Regions | **24.1** | **1.1%** | 21.9 | 0.9% | 2.2 | 10.0% |
| | **2,241.7** | **100.0%** | 2,370.5 | 100.0% | (128.8) | (5.4%) |

#### Gross Profit/Margin

Gross profit for the financial year 2023 was US$633.7 million, a decrease of US$35.4 million or 5.3% compared to the US$669.1 million recorded in the previous financial year. Gross profit margin for the year increased from 28.2% to 28.3%. It was mainly attributable to the increase in selling prices, lower cost of materials, freight charges, direct labour costs and manufacturing overhead during the year. These offset the negative impact of lower Group revenue, depreciation of major foreign currencies against United States Dollar, change in product mix, as well as the increase in inventory provisions arising from the Group's early production and shipments of the Group's products to its overseas warehouses in order to mitigate the higher freight costs and the risk of vessel capacity constraints during the peak season of the financial year 2023.

### Operating Profit / Margin

Operating profit for the year ended 31 March 2023 was US$180.5 million, a decrease of US$23.3 million or 11.4% compared with the previous financial year. Operating profit margin also reduced from 8.6% to 8.1%. The reduction in both operating profit and operating profit margin was mainly due to the decrease in gross profit. Operating profit for the year also included government subsidies of US$2.0 million in response to COVID-19, as compared with an amount of US$0.5 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 income included a fair value loss of US$0.3 million on this Investment, as compared with a fair value loss of US$1.0 million in the same period last year.

Total operating expenses for the year ended 31 March 2023 decreased from US$464.8 million to US$454.9 million as compared with the last financial year. Total operating expenses as a percentage of Group revenue increased from 19.6% to 20.3%.

Selling and distribution costs decreased from US$304.9 million to US$294.0 million compared with the same period last year. As a percentage of Group revenue, selling and distribution costs increased from 12.9% to 13.1%. It was mainly attributable to the increase in advertising and promotion costs for ELPs and TEL products as percentage of Group revenue.

Administrative and other operating expenses increased from US$75.6 million to US$77.6 million compared with the same period last year. It was mainly due to the increase in employee related costs. The net exchange loss arising from the Group’s global operations in the ordinary course of business was US$1.2 million, as compared with a net exchange loss of US$0.3 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue also increased from 3.2% to 3.5%.

During the financial year 2023, the research and development expenses were US$83.3 million, a decrease of 1.2% compared with the previous financial year of US$84.3 million. It was mainly attributable to lower project expenses and employee related costs. Research and development expenses as a percentage of Group revenue increased from 3.6% to 3.7%.

### Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2023 was US$149.2 million, a decrease of US$23.5 million or 13.6% as compared to the last financial year. Net profit margin also decreased from 7.3% to 6.7%.

Basic earnings per share for the year ended 31 March 2023 were US59.1 cents as compared to US68.5 cents in the previous financial year.

### Dividends

During the financial year 2023, 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 a final dividend of US42.0 cents per share, which is estimated to be US$106.1 million.

**Liquidity and Financial Resources**

Shareholders' funds as at 31 March 2023 were US$634.7 million, a decrease of 6.5% from US$678.8 million in the last financial year. Shareholders' funds per share decreased by 6.7% from US$2.69 to US$2.51.

The Group had no borrowings as at 31 March 2023 and 31 March 2022.

The Group's financial position remains strong. As at 31 March 2023, the Group had net cash of US$198.5 million, an increase of 1.4% as compared to US$195.8 million as of 31 March 2022. It was mainly due to the lower dividend payment and the increase in net cash generated from operating activities compared with the last financial year. These offset the lower opening cash balance and the unfavourable foreign currency exchange movements on the Group's net assets as a result of the depreciation of foreign currencies against United States Dollar during the year.

**Analysis of Cash Flow from Operations**

| | **2023**<br>**US$ million** | 2022<br>US$ million | Change<br>US$ million |
|---|---|---|---|
| Operating profit | **180.5** | 203.8 | (23.3) |
| Depreciation and amortisation | **56.5** | 64.6 | (8.1) |
| EBITDA | **237.0** | 268.4 | (31.4) |
| Loss / (Gain) on disposal of tangible assets | **0.6** | (0.1) | 0.7 |
| Dividend income from investment | **-** | (3.6) | 3.6 |
| Fair value loss on investments | **0.3** | 4.6 | (4.3) |
| Share-based payment expense: Share Purchase Scheme | **3.3** | 4.0 | (0.7) |
| Share-based payment expenses: Share Option Scheme | **0.4** | 0.3 | 0.1 |
| Working capital change | **34.5** | (91.8) | 126.3 |
| **Cash generated from operations** | **276.1** | 181.8 | 94.3 |

The Group's cash generated from operations for the year ended 31 March 2023 was US$276.1 million, an increase of US$94.3 million or 51.9% as compared to US$181.8 million in the previous financial year. The increase was mainly attributable to the decrease in working capital compared with the previous financial year, which offset the lower EBITDA in the financial year 2023.

**Working Capital Change**

| | Balance as at 31 March 2022 US$ million | Hedging and others US$ million | Working capital change per cash flow US$ million | **Balance as at 31 March 2023 US$ million** |
|---|---|---|---|---|
| Stocks | 553.3 | - | (77.8) | **475.5** |
| Trade debtors | 325.4 | - | (48.2) | **277.2** |
| Other debtors, deposits and prepayments | 59.5 | (0.6) | (11.8) | **47.1** |
| Trade creditors | (327.2) | - | 74.9 | **(252.3)** |
| Other creditors and accruals | (240.0) | (1.6) | 25.4 | **(216.2)** |
| Provisions for defective goods returns and other liabilities | (28.3) | - | 2.7 | **(25.6)** |
| Net assets on defined benefit scheme | 7.4 | (2.1) | 0.3 | **5.6** |
| **Total working capital** | 350.1 | (4.3) | (34.5) | **311.3** |

**Stocks** as of 31 March 2023 were US$475.5 million, decreased from US$553.3 million as of 31 March 2022. The turnover days also decreased from 131 days to 128 days. The lower stock level was largely due to the decrease in raw materials as the supply constraints had eased compared with the corresponding period of the previous financial year.

| **As at 31 March 2023 and 2022**<br>All figures are in US$ million unless stated otherwise | **2023** | 2022 |
|---|---|---|
| **Stocks** | **475.5** | 553.3 |
| Average stocks as a percentage of Group revenue | **22.9%** | 20.4% |
| Turnover days | **128 days** | 131 days |

**Trade debtors** as of 31 March 2023 were US$277.2 million, decreased from US$325.4 million as of 31 March 2022. Debtor turnover days also decreased from 65 days to 59 days. The lower trade debtor balance as at 31 March 2023 was mainly due to the decrease in revenue in the fourth quarter of the financial year 2023 compared with the corresponding period of the previous financial year. The overdue balances greater than 30 days accounted for 1.1% of the gross trade debtors as of 31 March 2023.

| **As at 31 March 2023 and 2022**<br>All figures are in US$ million unless stated otherwise | **2023** | 2022 |
|---|---|---|
| **Trade debtors** | **277.2** | 325.4 |
| Average trade debtors as a percentage of Group revenue | **13.4%** | 12.6% |
| Turnover days | **59 days** | 65 days |

**Other debtors, deposits and prepayments** as of 31 March 2023 were US$47.1 million, decreased from US$59.5 million as of 31 March 2022. It was mainly attributable to the decreases in fair value gain on forward foreign exchange contracts in the financial year 2023 and advance payments to suppliers.

**Trade creditors** as of 31 March 2023 were US$252.3 million, as compared to US$327.2 million as of 31 March 2022. Creditor turnover days decreased from 106 days to 102 days. The decrease in trade creditors was mainly due to the decrease in purchase of raw materials compared with the same period last year.

**As at 31 March 2023 and 2022**

| All figures are in US$ million unless stated otherwise | **2023** | 2022 |
|---|---|---|
| **Trade creditors** | **252.3** | 327.2 |
| Turnover days | **102 days** | 106 days |

**Other creditors and accruals** as of 31 March 2023 were US$216.2 million, decreased from US$240.0 million as of 31 March 2022. It was largely attributable to the decreases in advance payments from customer and accruals of advertising expenses and other allowances to customers.

**Provisions for defective goods returns and other liabilities** as of 31 March 2023 were US$25.6 million, as compared to US$28.3 million as of 31 March 2022.

**Net assets on defined benefit scheme** as of 31 March 2023 were US$5.6 million, as compared to US$7.4 million as of 31 March 2022. The decrease was mainly due to the re-measurement of net assets on defined benefit scheme.

**Treasury Policies**

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

**Capital Expenditure**

For the year ended 31 March 2023, the Group invested US$27.9 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 2024 for ongoing business operations are expected to be US$40.8 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 2023 was around 19,500, compared to 25,000 in the previous financial year. Staff related costs for the year ended 31 March 2023 were approximately US$370 million, as compared to approximately US$400 million in the financial year 2022.

## Review of Operations

### North America

Group revenue in North America decreased by 7.8% to US$984.8 million in the financial year 2023, as lower sales of ELPs and TEL products offset an increase at CMS. North America remained VTech's largest market, accounting for 43.9% of Group revenue.

ELPs revenue in North America declined by 15.2% to US$471.4 million, with sales decreases in the US and Canada. Both standalone and platform products registered lower sales, with declines in VTech and LeapFrog brands. Despite the challenges, VTech retained its leadership in electronic learning toys from infancy through toddler to preschool in the US[6]. In Canada, VTech remained the number one supplier in the infant, toddler and preschool toys category[7].

In standalone products, at VTech, sales of Marble Rush and Kidi line products pushed higher, boosted by the launch of new items such as Marble Rush Corkscrew Rush Set™ and My First Kidi Smartwatch™. These successes were, however, insufficient to offset lower sales of infant, toddler and preschool products, KidiZoom® cameras, Switch & Go Dinos and the Go! Go! Smart family of products. At LeapFrog, sales of LeapLand Adventures grew on the back of a new licensed version, as did the brand's growing range of eco-friendly toys made with wood, as well as plant-based and reclaimed plastics. The successful roll-out of Magic Adventures Microscope, the latest addition to the popular range of toys with a scientific learning content, also contributed additional revenue. These gains were offset, however, by lower sales of infant, toddler and preschool products.

Sales of VTech platform products declined as those of KidiZoom Smartwatch, KidiBuzz™ and Touch & Learn Activity Desk™ fell. Despite this, KidiZoom Smartwatch topped the Youth Electronics Supercategory in the US and Canada in the calendar year 2022[8]. LeapFrog platform products sales were lower, led by decreases in children's educational tablets, interactive reading systems and Magic Adventures Globe. Subscription revenue from LeapFrog Academy™ also declined.

During the financial year 2023, the Group's ELPs again won awards and recommendations from toy and parenting industry experts, key retailers and toy advisory boards in the US. LeapFrog's My Pal Scout Smarty Paws™ was named to Walmart's "Top Toy List", while VTech Level Up Gaming Chair™ and LeapFrog's Clean Sweep Learning Caddy™ made *The Toy Insider's* highly coveted "Hot 20" list of toys for the holiday season. Numerous other products from both the VTech and LeapFrog ranges garnered key awards from organisations including the National Parenting Center, Autism Live Toy & Gift Guide, Mom's Choice Awards, Academic's Choice and the National Parenting Product Awards.

TEL products revenue in North America fell by 12.7% to US$239.9 million. The decrease resulted from lower sales of residential phones, commercial phones and other telecommunication products. This was despite a further increase in sales via online channels.

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[6] Circana, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2022

[7] Circana, Retail Tracking Service, January – December 2022

[8] Circana, Retail Tracking Service, January – December 2022

Sales of residential phones fell as the US residential phone market continued to contract and shipments were hampered by the tight supply of semiconductors in the first half of the financial year 2023. Despite this, the Group regained distribution with a key retailer and maintained its leadership position in the US residential phones market[9].

Commercial phones saw lower sales of multi-line phones, headsets and SIP phones. Production of multi-line phones was affected by tight semiconductor supply in the first half of the financial year 2023, while a major customer for headsets reduced its orders. Sales of SIP phones decreased because of a delayed product launch. These declines offset growth in hotel phones, which were buoyed by the Group's ability to maintain a stable supply of products and a well-received revamped product line featuring a more contemporary design.

Sales of other telecommunication products decreased, mainly attributable to declines in baby monitors and CareLine products. Baby monitors saw lower sales as consumers traded down to lower-priced items owing to inflationary pressure. CareLine products, meanwhile, were affected by reduced orders from a customer and lower sales of VTech branded products.

In the financial year 2023, the Group gained market share and maintained its number one position in the baby monitor market in the US and Canada[10]. In the US, LeapFrog's LF930HD baby monitor gained recognition in the "2022 National Parenting Product Awards", while the LF925HD model made TTPM's "Best of Baby 2022 List (Category of Baby Tech)". In Canada, VTech's BC8313 V-Hush™ Pro Sleep Training Soother and RM5764HD baby monitor, as well as LeapFrog's LF815HD baby monitor, gained "Parent Tested Parent Approved Seal of Approval" awards.

CMS revenue in North America increased by 14.9% to US$273.5 million. Higher sales of professional audio equipment and industrial products offset a sales decline for solid-state lighting. Professional audio equipment benefited from the continuing rebound after the COVID-19 pandemic, as demand for power amplifiers and loudspeakers rose. The growth of industrial products was driven by more orders for printed circuit board assembly (PCBA) for coin and note recognition machines. Sales of solid-state lighting registered a decline as a major customer reduced its order, while sales of medical and health products remained stable. During the financial year 2023, the business acquired new customers in IoT (Internet of Things) products and professional audio equipment, respectively for smart home control systems and audio interface accessories for electronic drums.

**Europe**

Group revenue in Europe fell by 10.5% to US$917.0 million in the financial year 2023. The decrease was due to lower sales of ELPs and CMS, which offset higher sales of TEL products. Europe was the Group's second largest market, representing 40.9% of Group revenue.

ELPs revenue in Europe decreased by 12.0% to US$330.1 million, with declines for both standalone and platform products. Sales declined in the Group's key European markets, namely France, the UK, Germany and the Netherlands. In the calendar year 2022, VTech remained the number one infant and toddler toys manufacturer in France, the UK, Germany, Spain and the Benelux countries[11].

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9 MarketWise Consumer Insights, LLC, April 2022 – March 2023

10 Circana/Retail Tracking Service, US and Canada, based on dollar and unit brand share, 12 months ended March 2023 vs. prior year

11 Circana, Retail Tracking Service, January – December 2022

In standalone products, VTech recorded higher sales of Marble Rush, electronic learning aids and eco-friendly toys. However, these were insufficient to compensate for lower sales of infant, toddler and preschool products, KidiZoom cameras, the Kidi line and the Toot-Toot family of products. At LeapFrog, sales posted a slight increase as growth in eco-friendly toys and LeapLand Adventures offset declines in infant, toddler and preschool products. The launch of Magic Adventures Microscope added incremental business.

For platform products, sales at both VTech and LeapFrog brands fell. The decline at VTech was mainly attributable to lower sales of children's educational tablets, KidiZoom Smartwatch, the KidiCom® range of products and Touch & Learn Activity Desk. For LeapFrog, higher sales of Magic Adventures Globe were insufficient to offset lower sales of interactive reading systems.

During the financial year 2023, VTech and LeapFrog ELPs won numerous awards across the region. These included four "Grand Prix du Jouet 2022" awards given by *La Revue du Jouet* magazine in France, where Magic Adventures Microscope won "Toy of the Year". In the Netherlands, Magic Adventures Microscope gained a "Toy of the Year Award 2022" from the Dutch Toy Association. In Spain, KidiZoom PrintCam™ and Magic Lights 3D were chosen as "Best Toy of the Year 2022" by the Spanish Association of Toy Manufacturers. In Belgium, Magic Adventures Microscope and Smart Chart Medical Kit™ were both named "Toy of the Year 2022" by the Belgian Federation of Toys. In the UK, Rainbow Learning Lights Mixer™ made the "Toy Fair Hero Toys List 2023" at the British Toy & Hobby Association while the drawing robot JotBot was named one of the "Top Ten Toys for Christmas 2022" by retailer John Lewis.

Revenue from TEL products in Europe rose by 2.8% to US$96.4 million. Growth in residential phones and other telecommunication products offset a sales decline in commercial phones.

Sales of residential phones increased, as VTech branded phones continued to grow in the UK and Germany, and several ODM (Original Design Manufacturing) customers increased orders. Other telecommunication products also achieved a sales increase. The Group was able to meet demand for CAT-iq handsets as the supply of semiconductors improved. This offset lower sales of baby monitors, CareLine products and IADs. During the financial year 2023, VTech baby monitors and V-Hush sleep trainers garnered three "2023 MadeforMums Awards", three "2022 Loved by Parents Awards" and two "2022 Dadsnet Product Awards" in the UK.

By contrast, sales of commercial phones fell as growth in hotel phones was offset by declines in SIP phones and headsets. Hotel phones grew as the series with revamped designs was well-received by customers, while sales of SIP phones and headsets were negatively impacted by the economic slowdown in the region.

CMS revenue in Europe declined by 11.8% to US$490.5 million, as lower orders of hearables and communications products offset gains in other categories.

Sales of hearables declined because orders for a customer's Bluetooth headsets decreased as end-market demand fell due to competition, while demand for commercial headsets returned to normal levels. Sales of communication products decreased as orders for Wi-Fi routers no longer benefited from the surge in upgrading that had occurred during the COVID-19 pandemic. Professional audio equipment grew on a recovery in demand for audio mixers as events recovered with the return of normal social life. IoT products saw higher sales of smart meters as installation resumed in the UK, while demand for internet-connected thermostats and air-conditioning controls rose in response to soaring energy prices. Medical and health products saw sales of hearing aids increase, as business activity resumed after the pandemic. This offset a decline in hair removal products. Sales of home appliances remained stable, while the power supplies category saw growth from smart energy storage systems.

**Asia Pacific**

Group revenue in Asia Pacific rose by 23.8% to US$315.8 million in the financial year 2023, as higher sales of TEL products and CMS offset lower revenue from ELPs. The Asia Pacific region represented 14.1% of Group revenue.

Revenue from ELPs in Asia Pacific decreased by 5.4% to US$79.4 million, as growth in Japan was unable to offset lower sales in mainland China. Sales in Australia, meanwhile, held steady. The increase in Japan was driven by rising sales to a major toy retailer and good sell-through of jointly developed Smartwatches featuring the popular Japanese "Sumikkogurashi" and "Doraemon" characters. In Australia, sales held steady despite tougher market conditions. In the financial year 2023, VTech maintained its position as the number one manufacturer in the infant and toddler toys category in the country[12]. Four products won awards at the Australian Toy Fair in March 2023, with Magic Adventures Microscope named "Overall Product of the Year" by the Australian Toy Association. In mainland China, sales were lower as higher online sales were insufficient to offset a sales decline in offline channels. This was despite the successful roll-out of Marble Rush and the strong performance of Magic Adventures Globe in the market.

TEL products revenue in Asia Pacific increased by 2.5% to US$28.4 million, as higher sales in Japan offset lower sales in Australia and Hong Kong. The growth in Japan was due to more orders of CareLine products from an existing customer. In Australia, sales of residential phones declined as the market shrank, while sales of baby monitors were held back by semiconductor shortages, particularly in the first half of the financial year 2023. Hong Kong, meanwhile, was affected by reduced orders of IADs from a customer.

CMS revenue in Asia Pacific rose by 45.0% to US$208.0 million. Sales of professional audio equipment, medical and health products and communication products were higher. Professional audio equipment benefited from a rebound in sales of DJ equipment, as the Group's Malaysian facilities returned to full production following disruptions during the COVID-19 pandemic. Sales of medical and health products also increased. Orders for diagnostic ultrasound systems continued to rise as hospitals rebalanced budgets away from COVID-19 related equipment purchases. In communication products, orders for marine radios increased following a product redesign incorporating components not in short supply.

[12] Circana, Retail Tracking Service, January – December 2022

**Other Regions**

Group revenue in Other Regions, comprising Latin America, the Middle East and Africa, grew by 10.0% to US$24.1 million in the financial year 2023. The increase came as higher sales of TEL products offset declines for ELPs and CMS. Other Regions accounted for 1.1% of Group revenue.

ELPs revenue in Other Regions decreased by 3.7% to US$10.5 million. Higher sales in the Middle East were unable to offset declines in Latin America and Africa.

TEL products revenue in Other Regions rose by 24.8% to US$13.6 million. The growth was attributable to sales increases in Latin America and the Middle East, which offset a decline in Africa.

CMS revenue in Other Regions was immaterial in the financial year 2023.

## CORPORATE GOVERNANCE PRACTICES

The Company is incorporated in Bermuda and has its shares listed on the Stock Exchange. The corporate governance rules applicable to the Company are the Corporate Governance Code the "Code") as set out in Appendix 14 to the Listing Rules. Throughout the financial year ended 31 March 2023, the Company has complied with all the code provisions of the Code, except for the deviation from code provision C.2.1 of Part 2 of the Code as described below.

Under code provision C.2.1. of Part 2 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. As more than half of the Board members are Independent Non-executive Directors, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group. Furthermore, as Dr. Allan WONG Chi Yun is the founder of the Group and has substantial professional experience in the industry, the Board believes that the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the sustainable development of the Group, and 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 2023.

## 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 2023 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 2023 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 2023 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 2023.

## 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 252,000 Company's shares at a consideration of approximately US$1.5 million.

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

Hong Kong, 17 May 2023

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

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