



Annual Report 2020

Stock Code : 303





Contents

Corporate Profile

VTech is the global leader in electronic learning products from infancy through toddler and preschool and the largest manufacturer of residential phones in the US. It also provides highly sought-after contract manufacturing services.

Since its establishment in 1976, VTech has been the pioneer in the electronic learning toy category. With advanced educational expertise and cutting-edge innovation, VTech products provide fun and learning to children around the world. Leveraging decades of success in cordless telephony, the Group's diverse collection of telecommunication products elevates both home and business users' experience through the latest in technology and design. As one of the world's leading electronic manufacturing service providers, VTech offers world-class, full turnkey services to customers in a number of product categories.

The Group's mission is to design, manufacture and supply innovative and high quality products in a manner that minimises any impact on the environment, while creating sustainable value for its stakeholders and the community.

With headquarters in Hong Kong and state-of-the-art manufacturing facilities in mainland China and Malaysia, VTech has approximately 26,000 employees in its operations across 14 countries and regions, including about 1,600 R&D professionals in R&D centres in Hong Kong, mainland China, Germany, the US, Canada and Taiwan. This network allows VTech to stay abreast of the latest technology and market trends throughout the world, while maintaining a highly competitive cost structure.

VTech invests significantly in R&D and launches numerous new products each year under its portfolio of strong brands, supported by a global distribution network of leading traditional and online retailers.

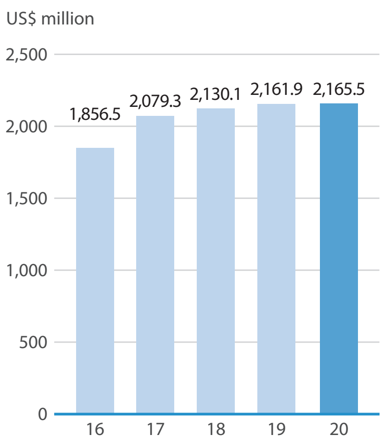
Shares of VTech Holdings Limited are listed on The Stock Exchange of Hong Kong Limited (HKSE: 303).

Financial Highlights

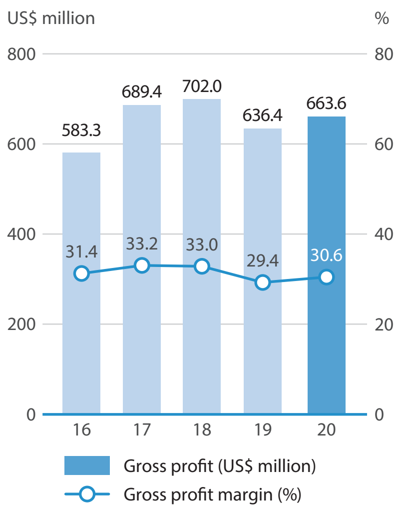
For the year ended 31 March	2020	2019	Change
Operating results (US$ million)			
Revenue	**2,165.5**	2,161.9	0.2%
Gross profit	**663.6**	636.4	4.3%
Operating profit	**219.7**	193.2	13.7%
Profit before taxation	**212.3**	192.3	10.4%
Profit attributable to shareholders of the Company	**190.7**	171.3	11.3%
Financial position (US$ million)			
Cash generated from operations	**263.5**	273.4	-3.6%
Deposits and cash	**242.5**	237.0	2.3%
Shareholders' funds	**601.5**	607.0	-0.9%
Per share data (US cents)			
Earnings per share – basic	**75.7**	68.2	11.0%
Earnings per share – diluted	**75.7**	68.1	11.2%
Dividend per share – interim and final	**53.0**	67.0	-20.9%
Other data (US$ million)			
Capital expenditure	**33.2**	37.3	-11.0%
R&D expenditure	**81.7**	77.2	5.8%
Key ratios (%)			
Gross profit margin	**30.6**	29.4	1.2% pts
Operating profit margin	**10.1**	8.9	1.2% pts
Net profit margin*	**8.8**	7.9	0.9% pts
EBITDA/Revenue	**12.8**	10.7	2.1% pts
Return on shareholders' funds	**31.7**	28.2	3.5% pts

* Net profit margin is calculated as profit attributable to shareholders of the Company as a percentage of revenue

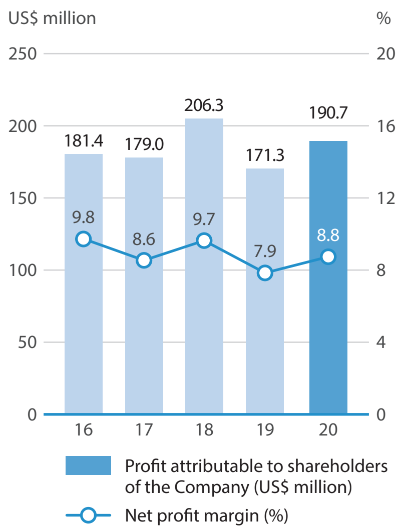
Group Revenue in Last 5 Years



Gross Profit and Gross Profit Margin in Last 5 Years



Profit Attributable to Shareholders of the Company and Net Profit Margin in Last 5 Years



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

Dear Shareholders,

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

Results and Dividend

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

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

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

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

Costs

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

US-China Trade Tension

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

Our Businesses

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

In the calendar year 2019, VTech was the number one supplier of electronic learning toys from infancy through toddler and preschool globally[1 & 2]. In North America, the Group gained market share, strengthening its position as the largest manufacturer of electronic learning toys from infancy through toddler and preschool[3]. Especially noteworthy was the performance in Canada, where VTech has overtaken the competition to become the number one supplier in the infant and toddler toys categories[4]. In Europe, the Group remained the number one infant and toddler toy manufacturer in France, the UK, Germany, Spain and Belgium[5]. In Asia Pacific, the Group saw further gains in market share, notably in Australia.

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

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

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

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

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

Source:

1. Ranking based on The NPD Group Retail Tracking Service for Projected US Dollar Sales in the US, Canada, France, Germany, the UK and Spain on total retail sales in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2019
2. Global Market Share Estimates by MarketWise Consumer Insights, LLC. Ranking based on total retail sales in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2019
3. The NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2019
4. The NPD Group, Retail Tracking Service
5. The NPD Group, Retail Tracking Service
6. MarketWise Consumer Insights, LLC, April 2019 – March 2020

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

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

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

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

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

Impact of COVID-19

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

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

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

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

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

Outlook

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

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

8 *Manufacturing Market Insider*, March 2020 edition

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

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

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

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

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

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

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

Allan Wong Chi Yun
Chairman

Hong Kong, 18 May 2020

Financial Overview

For the year ended 31 March 2020

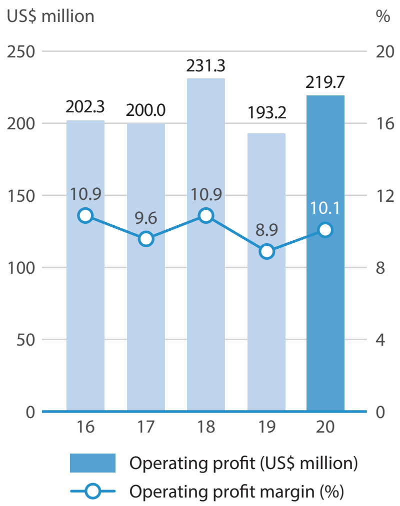
	2020 US$ million	2019 US$ million	Change US$ million
Revenue	**2,165.5**	2,161.9	3.6
Gross profit	**663.6**	636.4	27.2
Gross profit margin	**30.6%**	29.4%	
Other income	**5.9**	5.9	–
Total operating expenses	**(449.8)**	(449.1)	(0.7)
Total operating expenses as a percentage of revenue	**20.8%**	20.8%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

Revenue

Group revenue for the year ended 31 March 2020 increased by 0.2% to US$2,165.5 million compared with the previous financial year. The increase in revenue was largely driven by the higher sales in Europe and Asia Pacific, which offset the decrease in revenue in North America and Other Regions.

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

Operating Profit and Operating Profit Margin in Last 5 Years



Gross Profit/Margin

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

Operating Profit/Margin

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

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

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

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

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

Net Finance Expense

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

Taxation

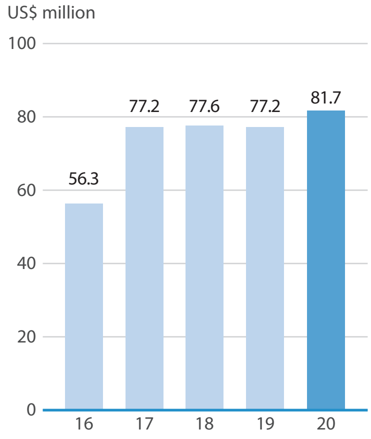
Taxation charges increased from US$21.0 million in the last financial year to US$21.6 million in the financial year 2020, while the effective tax rate decreased from 10.9% to 10.2%. The decrease of effective tax rate was mainly attributable to the tax refund relating to the Group's US operation in the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

Profit Attributable to Shareholders and Earnings Per Share

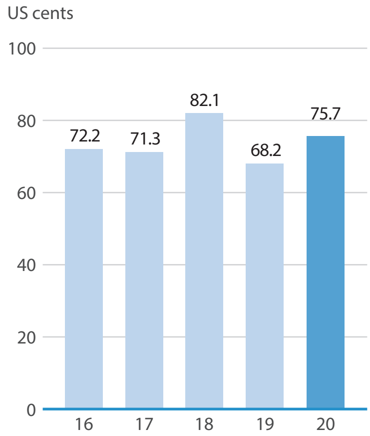
Profit attributable to shareholders of the Company for the year ended 31 March 2020 was US$190.7 million, an increase of US$19.4 million or 11.3% as compared to the last financial year. Net profit margin also increased from 7.9% to 8.8%.

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

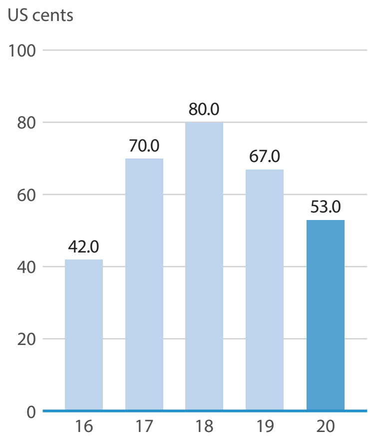
Group R&D Expenditure in Last 5 Years



Basic Earnings Per Share in Last 5 Years



Dividend Per Share in Last 5 Years



Dividends

During the financial year 2020, the Group declared and paid an interim dividend of US17.0 cents per share, which aggregated to US$42.8 million. The directors of the Company (the "Directors") have proposed a Final Dividend of US36.0 cents per share, which is estimated to be US$90.6 million.

	2020 US cents	2019 US cents
Dividend per share		
Interim	**17.0**	17.0
Final*	**36.0**	50.0
Total	**53.0**	67.0

* Final dividend proposed after the end of the reporting period

Liquidity and Financial Resources

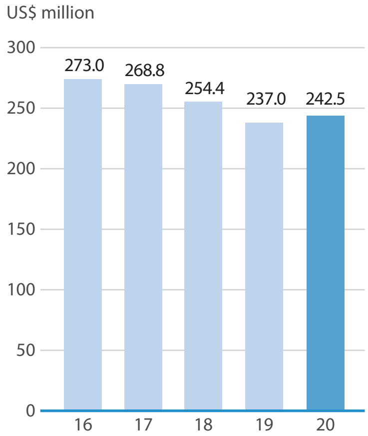
Shareholders' funds as at 31 March 2020 were US$601.5 million, a decrease of 0.9% from US$607.0 million in the last financial year. Shareholders' funds per share decreased by 0.8% from US$2.41 to US$2.39.

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

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

Deposits and Cash in Last 5 Years

(As at 31 March)



Analysis of Cash Flow from Operations

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

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

Working Capital Change

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

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

As at 31 March 2020 and 2019 All figures are in US$ million unless stated otherwise	2020	2019
Stocks	**372.6**	369.9
Average stocks as a percentage of Group revenue	**17.1%**	16.6%
Turnover days	**102 days**	100 days

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

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

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

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

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

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

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

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

Right-of-use Assets and Lease Liabilities

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

Treasury Policies

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

Capital Expenditure

For the year ended 31 March 2020, the Group invested US$33.2 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment, as well as the improvement of manufacturing working environment. All of these capital expenditures were financed from internal resources.

Capital Commitments and Contingencies

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

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

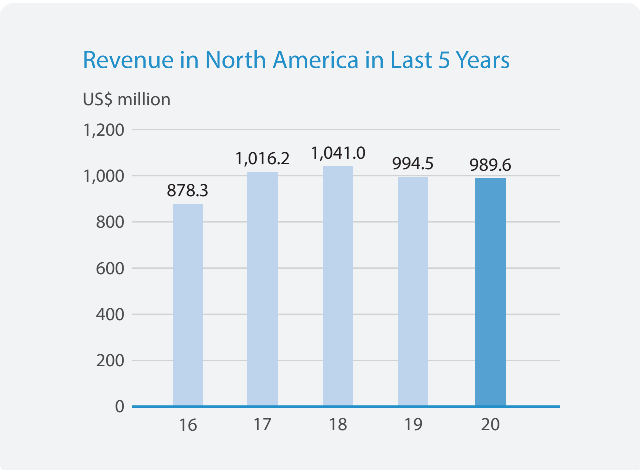
As of the financial year end date, the Group had no material contingencies.

Group Revenue by Region

North America	Europe	Asia Pacific	Other Regions*
45.7%	40.9%	12.0%	1.4%
US$989.6 million	US$886.3 million	US$259.4 million	US$30.2 million
▼ 0.5% year-on-year	▲ 0.4% year-on-year	▲ 4.3% year-on-year	▼ 15.9% year-on-year

* Other Regions include Latin America, the Middle East and Africa

NORTH AMERICA



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

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

[9] The NPD Group, Retail Tracking Service

[10] 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 2019

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

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

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

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

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

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

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

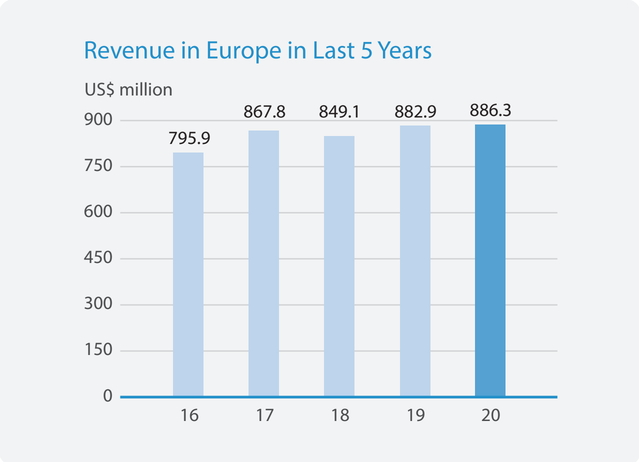
For commercial phones and other telecommunication products, sales of SMB phones, hotel phones, headsets and baby monitors were lower, offsetting growth in VoIP phones and conference phones. VTech's range of SMB phones has reached the end of its life cycle, leading to a reduction in sales. Hotel phones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

CMS revenue in North America was 1.0% lower at US$252.0 million. The decrease resulted mainly from the growth in professional audio equipment and medical and health products being offset by lower sales of industrial and communication products. Professional audio equipment grew as a backlog of orders for a customer cleared following an improvement in the materials supply, while another customer increased orders as it benefitted from a new product launch. Growth in medical and health products was driven by higher sales of hearing aids. This came as a customer transferred part of its in-house production to VTech and contracted for the manufacture of finished products rather than printed circuit board (PCB) assembly. Sales of industrial products fell on lower orders for note counting machines and electronic locks, while sales of communication products declined as the customer's product reached the end of its life cycle. The solid-state lighting business, meanwhile, was largely stable.

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

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

EUROPE



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

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

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

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

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

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

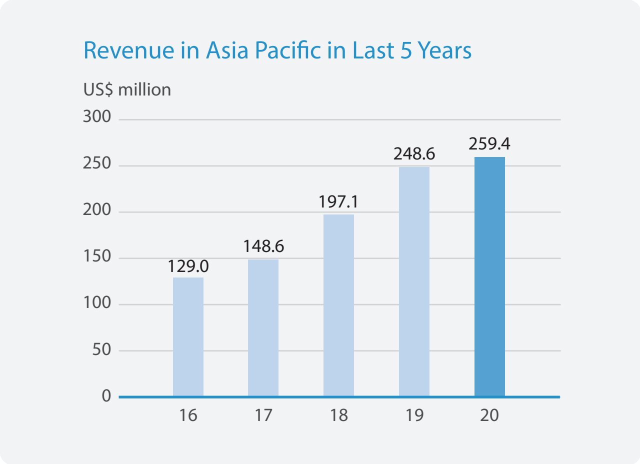
Residential phones saw sales decline owing to the continued contraction of the fixed-line telephone market and as a result of reduced orders from a number of existing customers.

The sales growth in commercial phones and other telecommunication products was mainly driven by CAT-iq handsets and the CareLine range. Sales of CAT-iq handsets were boosted by the addition of a new customer in Germany and the start of shipment to a major telecommunication operator in the UK. The CareLine range saw increased orders from several existing customers. Conference phones also recorded modest growth. The VoIP phones, baby monitors and hotel phones businesses were stable, but sales of IADs trended lower, as a customer reduced orders.

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

[13] The NPD Group, Retail Tracking Service

ASIA PACIFIC



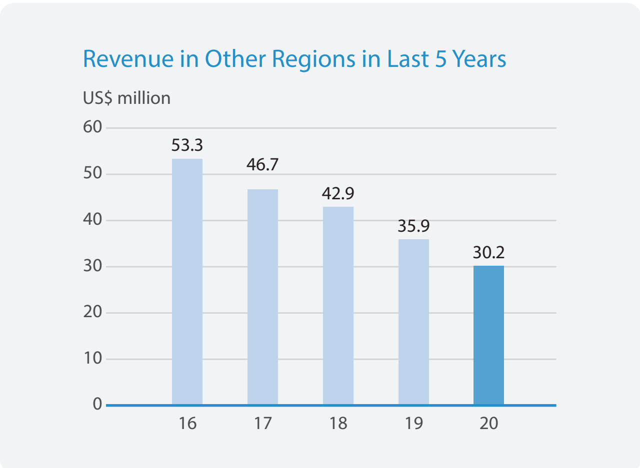
Group revenue in Asia Pacific increased by 4.3% to US$259.4 million in the financial year 2020, as higher sales of ELPs and CMS offset lower sales of TEL products. The Asia Pacific region accounted for 12.0% of Group revenue.

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

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

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

OTHER REGIONS



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

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

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

CMS revenue in Other Regions was US$1.5 million in the financial year 2020, as compared to US$1.2 million in the previous financial year.

Electronic Learning Products

BRANDS

vtech

LeapFrog

No.1
supplier of electronic learning toys from infancy through toddler and preschool globally

No.1
manufacturer of electronic learning toys from infancy through toddler and preschool in the US

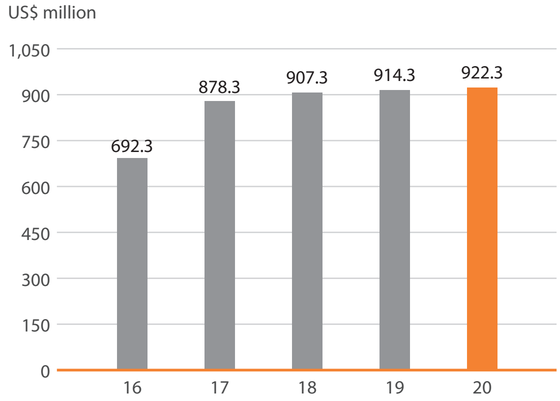
No.1
supplier in infant and toddler toys categories in Canada

No.1
infant and toddler toy manufacturer in France, the UK, Germany, Spain and Belgium

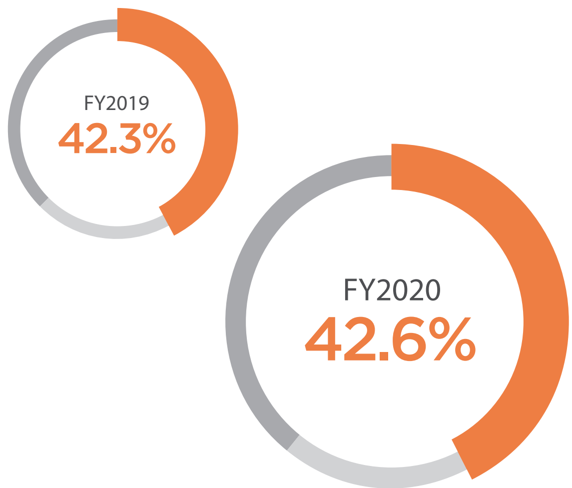
60 million
products shipped in FY2020

89 countries
selling the Group's ELPs in 28 languages

ELPs Revenue in Last 5 Years



As % of Group Revenue



ELPs Revenue by Region

All figures are in US$ unless stated otherwise

North America
493.7 million
↑ 3.6% (year-on-year)

Europe
333.3 million
↓ 3.0% (year-on-year)

Asia Pacific
83.2 million
↑ 2.5% (year-on-year)

Other Regions
12.1 million
↓ 6.9% (year-on-year)

STANDALONE PRODUCTS

Age-appropriate and developmental stage-based toys

Infant
0-12 months

Toddler
1-3 years

Preschool
3-6 years

Go! Go! Cory Carson

LeapBuilders / Bla Bla Blocks

PLATFORM PRODUCTS

Various devices for children, with books, cartridges, expansion packs and/or downloadable content for different learning levels

MAGIC ADVENTURES GLOBE

leap start 3D

leap start Go

KidiBuzz G2

KidiZoom SMART WATCH DX2

Explore & Write Activity Desk Interactive Learning System

LeapFrog epic Academy Edition

Rockit Twist Rotatable Learning Game System

LEAPFROG ACADEMY

A subscription-based, interactive learning programme designed by educational experts, offering over 2,000 engaging games and activities for children aged 3 to 6 years

LeapFrog Academy

Telecommunication Products

BRANDS vtech® snom AT&T (Licensed Brand)

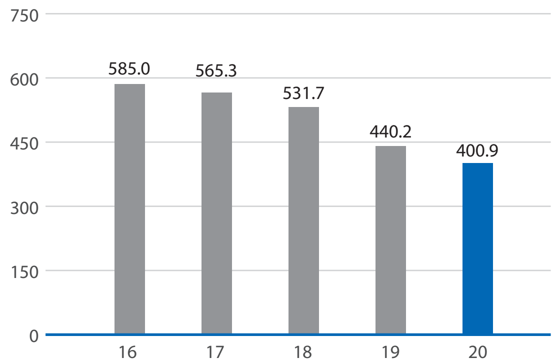
No.1
residential phones manufacturer in the US

No.1
baby monitor brand in the US and Canada

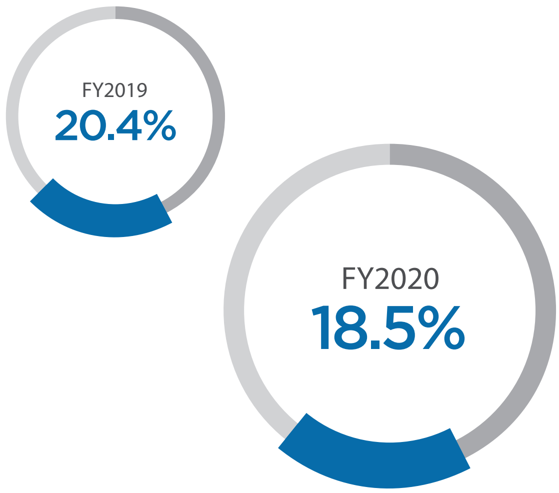
17.7 million
handsets shipped in FY2020

82 countries
selling the Group's TEL products

TEL Products Revenue in Last 5 Years

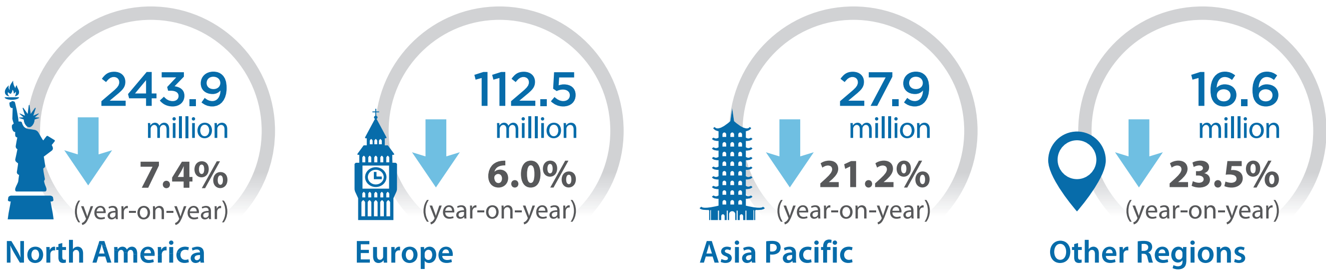


As % of Group Revenue



TEL Products Revenue by Region

All figures are in US$ unless stated otherwise



RESIDENTIAL PHONES

A perfect blend of design and functionality

IS8151 5-Handset Expandable Cordless Phone with Super Long Range and Answering System

DL72210 2-Handset Connect to Cell Answering System with Smart Call Blocker

SN5127 Amplified Cordless Phone with Answering System

COMMERCIAL PHONES

Products specially designed for businesses, from small-to-medium sized operations to enterprise-level corporations, which are easy to install and set up

Conference Phone

Colour Display SIP Phone

Other Product Categories

- SMB Phone
- SIP-DECT Mobility Solution
- Hotel Phone
- Cordless Headset

OTHER TELECOMMUNICATION PRODUCTS

A wide range of products which cater to various needs of home users, making life more comfortable

Integrated Access Device

Baby Monitor

CAT-iq 2.0 Certified Handset

Other Product Categories

- Wireless Monitoring System
- Baby Soother

Contract Manufacturing Services

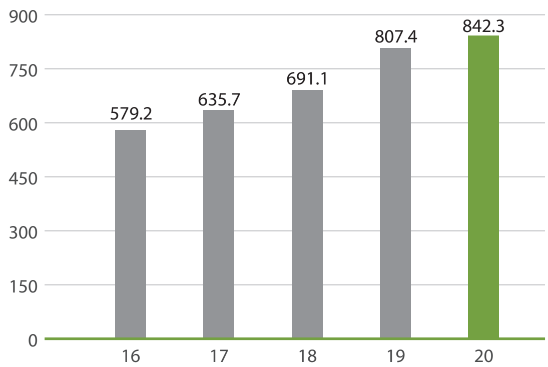
25th
among the world's top 50 EMS providers, number one in Hong Kong

18th
consecutive year of sales growth

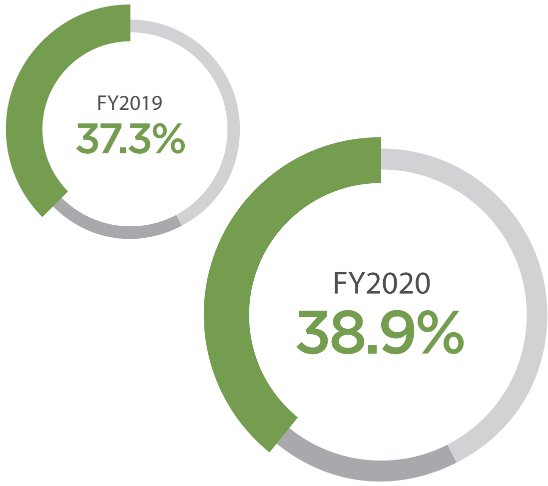
4.3%
sales growth in FY2020

CMS Revenue in Last 5 Years

US$ million



As % of Group Revenue



CMS Revenue by Region

All figures are in US$ unless stated otherwise

		(year-on-year)
North America	252.0 million	↓ 1.0%
Europe	440.5 million	↑ 5.0%
Asia Pacific	148.3 million	↑ 12.3%
Other Regions	1.5 million	↑ 25.0%

The Group focuses on professional, industrial and commercial products. Below are some of the key product categories for CMS:

PROFESSIONAL AUDIO EQUIPMENT

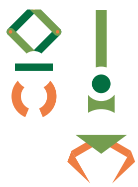
HEARABLES

IoT PRODUCTS

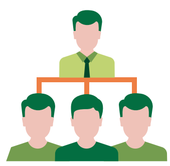
MEDICAL & HEALTH PRODUCTS

The consistent year-on-year growth delivered by VTech's CMS is a testament to its high level of service and ability to meet customer needs.

Excellent Reputation



Manufacturing Know-how



Stable Management

Outstanding Customer Service

CORPORATE

Sustainability Efforts

VTech Holdings Limited continues to be a constituent member of the Hang Seng Corporate Sustainability Benchmark Index and the FTSE4Good Global Index for the 5th consecutive year. VTech has also received a rating of AA in the MSCI (Morgan Stanley Capital International) ESG Rating Assessment[14] for the second year.

Hang Seng Corporate Sustainability Index Series Member 2019-2020

FTSE4Good

MSCI

VTech's Sustainability Report 2019 received a "Sustainability and Social Responsibility Reporting Award" in the Best Corporate Governance Awards 2019 presented by the Hong Kong Institute of Certified Public Accountants. The Group was a winner of the "Outstanding Caring Awards (Enterprise Group)" under the "Industry Cares" recognition scheme organised by the Federation of Hong Kong Industries.

INDUSTRY CARES 工業獻愛心 3+

10 years+ 商界展關懷 caringcompany

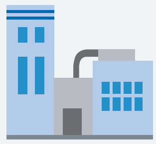
Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

"Caring Company" Recognition

VTech has been designated a "Caring Company" by the Hong Kong Council of Social Service for the 12th consecutive year.

New Malaysian Manufacturing Facilities

In December 2019, the Group signed an agreement to acquire its second manufacturing facilities in Malaysia, comprising over 500,000 square feet of buildings in Penang.



Community Involvement

VTech employees actively participated in charitable sports events including the Sowers Action Challenging 12 Hours Charity Marathon 2019 and Hong Kong Streetathon 2020 during the financial year 2020.

VTech was again the Gold Sponsor of the Hong Kong Streetathon event and a Bronze sponsor in the Sowers Action event. The Group also sponsored and competed for the "VTech Cup" at the Shatin Dragon Boat Race 2019.

In the financial year 2020, the Group contributed over 23,000 hours of volunteer activities. VTech's teams of volunteers actively participated in community services, including food-waste recycling, visiting the elderly and donating books and toys to children in Hong Kong and remote areas of mainland China.

Award-winning Annual Report

The VTech Annual Report 2019 received the "Bronze Award" in the category of Traditional Annual Report: Manufacturing & Distributing in the 2019 International ARC Awards.

[14] The use by VTech Holdings Limited of any MSCI ESG Research LLC data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of VTech by MSCI or any of its affiliates. MSCI services and data are the property of MSCI or its information providers. MSCI and MSCI ESG Research names and logos are trademarks or service marks of MSCI or its affiliates

VTech's COVID-19 Response

The COVID-19 pandemic is an unprecedented crisis affecting the entire world. Across the globe VTech's teams are working tirelessly to use the Group's expertise and resources to make positive contributions to local communities. At the same time, we have stepped up efforts to ensure a safe working environment at our locations worldwide.

US

VTech has been supporting US communities in various ways during the COVID-19 pandemic:

Launched "**#Learn Through This**" campaign to offer free online learning content to keep kids learning at home;

#LearnThroughThis

Extended **free trial period of LeapFrog Academy**;

Donated to **AdoptAClassroom.org's COVID-19 Disaster Relief Fund** to support teachers and schools;

Donated **baby monitors** to hospitals

AUSTRALIA

Launched "**#Learn Through This**" campaign to donate toys to Save the Children, supporting vulnerable families.

Save the Children

CANADA

Donated **baby monitors** to hospitals and supported children in need in the local community with learning toys.

vtech TOGETHER

FRANCE

Launched "**#VTech Ensemble**" campaign to make financial donations to hospitals and give out toys to sick children.

#VTechEnsemble

MAINLAND CHINA

The Group has been producing **face masks for local staff and workers.**

Sourced **surgical masks for a hospital in Dongguan.**

HONG KONG

Sourced **surgical masks for our overseas employees.**

ELECTRONIC LEARNING PRODUCTS

Top Overall Toy Properties of the Year

In the calendar year 2019, VTech Baby ranked fifth in the "Top Overall Toy Properties of the Year" in Europe[15].

Launch of Go! Go! Cory Carson

Season one of Go! Go! Cory Carson, an animated series inspired by the award-winning Go! Go! Smart Wheels, premiered on Netflix globally in January 2020. Playsets and vehicles featuring the characters reached the shelves in the US in March 2020.

Other Awards

In the financial year 2020, the Group's ELPs received over 140 accolades from respected toy and parenting industry experts, toy councils and retailers around the world.

[15] The NPD Group, Retail Tracking Service, Euros Sales, January - December 2019

TELECOMMUNICATION PRODUCTS

No. 1 Baby Monitor Brand

In the financial year 2020, VTech was the number one baby monitor brand by dollar sales in the US and Canada[16].

Product of the Year

The Snom D735 desk phone and C52-SP conferencing solution received "Product of the Year" awards presented by *Funkschau* magazine in Germany.

Award-winning Baby Monitors

In the UK, the VM5261 Baby Monitor was a "Gold Award" winner in the Best Baby Monitor category of the Mother & Baby Awards, while the VM3261 Baby Monitor won a "Platinum Award" for Best Nursery Innovation and a "Gold Award" for Best Video Baby Monitor in the Loved by Parents Awards. In Australia, VTech topped Canstar Blue's baby monitor ratings in 2019, scoring five stars on value for money, reliability, image quality, sound clarity, ease of use and overall satisfaction, and was named "Best Rated Baby Monitor Brand" in the 2019/2020 Finder Awards.

CONTRACT MANUFACTURING SERVICES

A Global Top 25 EMS Provider

VTech Communications Limited was ranked 25th among the world's "Top 50 EMS Providers", and first in Hong Kong, in *Manufacturing Market Insider*[17] magazine.

Service Excellence

VTech Communications Limited received numerous awards from customers, including "Outstanding Partner Award", "Supplier of the Year 2019" and "10 Years of Partnership" awards from customers in the field of professional audio equipment.

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

[17] *Manufacturing Market Insider*, March 2020 Edition

Sustainability

"VTech's sustainability vision is to create sustainable value for the lives of people and protect the planet for the future generations. Our sustainability mission is to design, manufacture and supply innovative and high quality products in a manner that minimises any impact on the environment, while creating sustainable value for our stakeholders and the communities."

The recent outbreak of COVID-19 has dreadful impacts on the social lives of people and the global economy. It has not only affected the financial performance of the Group in the last quarter of financial year 2020, but also imposed high uncertainty on the Group's businesses in the coming financial year.

Although we are currently confronting an unprecedented threat, with our long standing sustainability programme, which includes a well-established Business Continuity Management (BCM) system incorporating a risk management framework, together with our devoted employees from different countries of the world, VTech is able to rapidly respond to the unpredictable changes in the global environment and mitigate the suffering of our businesses. These include the gradual resumption of production in our mainland China factories with preventative measures to protect the health and safety of our workers and staff in the workplace, and successful transition to a work-from-home environment for our overseas employees without jeopardising the risk of network security. In order to ensure a stable supply of good quality face masks for our employees, we have set up a production line in the clean room of our mainland China factory to make face masks for our people, and also provided face masks to our overseas staff who are working from home for their personal health and safety.

VTech is also leveraging its technological expertise, market leadership positions and financial resources to support the communities to fight against the COVID-19 pandemic. In order to support the front-line medical staff for their tireless contributions to the societies, VTech has donated our baby monitors to the hospitals in the North America, and sourced surgical masks for the hospital in Dongguan, mainland China. In the US, we have launched a "#LearnThroughThis" campaign with free on-line learning content for the children to learn and play while they are staying at home. We have also stepped up our charitable efforts to donate our learning toys for the low-income communities and vulnerable children in different countries. In addition, we have given financial support for global philanthropies such as COVID-19 Disaster Relief Fund of AdoptAClassroom.org in the US and Canada to facilitate the teachers to provide online training classes for the students, and launched "#VTechEnsemble" programme in France to make donations to the hospitals and help the children and the families in need during this difficult time.

With our dedicated sustainability efforts and decisive actions in response to the fluid COVID-19 situation and changing safety environment in different countries of the world, VTech was able to deliver sales and net profit growth in the financial year 2020 although the outlook of our businesses in the coming financial year remains highly uncertain.

VTech's Sustainability Report 2020 is our 7th annual Sustainability Report and is also the final year of our first 5-year Sustainability Plan 2020. In order to achieve our sustainability vision and mission and ensure that our continuous improvement programmes and approaches could be carried out effectively and consistently throughout the Company and in a sustainable manner, VTech has developed the second 5-year Sustainability Plan 2025 covering the period from FY2021 to FY2025. Our sustainability initiatives in the new 5-year Sustainability Plan 2025 will be focusing on increasing the use of sustainable materials in our products, recycling our products in a responsible way, increasing the use of renewable energy and reducing the natural resources consumption in our production process, as well as stepping up our efforts to use more eco-friendly transportation modes in our supply chain management.

VTech published its first Sustainability Report for the financial year 2014. The purpose of the report was not only to communicate our sustainability strategies, management approaches and performances with our stakeholders, but also comprehensively introduce our ongoing activities for our sustainable development towards the societies and environment in which we operate. In our Sustainability Report 2020, we followed the Global Reporting Initiative (GRI) Standards: Core option and its principles of balance, comparability, accuracy, timeliness, clarity and reliability. We have also made reference to the Stock Exchange of Hong Kong Limited (the Stock Exchange) Environmental, Social and Governance (ESG) Reporting Guide (ESG Guide) to define our report content and satisfy its "comply or explain" and "recommended disclosures" provisions.

VTech also supports the 17 Sustainable Development Goals ("SDGs") developed by the United Nations, which provide sustainable development direction and targets of the world to be achieved by 2030. In our Sustainability Plan 2025, we have developed sustainability strategies and programmes based on our five sustainability pillars – Governance and Business Ethics, Product Responsibilities and Value Chain Management, Environment, Our People, and Society, aiming to make contribution towards the 17 SDGs.

Furthermore, VTech has started to disclose climate-related initiatives and measures by using the framework of Task Force on Climate-related Financial Disclosures. A number of potential physical and transition risks and opportunities related to the climate change, which have impacts on the company in short, medium and long term, are identified with development of sustainability initiatives to address them in our 5-year Sustainability Plan 2025.

Our dedicated sustainability efforts have received local and international recognitions. VTech continues to be a constituent member of the Hang Seng Corporate Sustainability Benchmark Index with score at AA- rating, and is also included in the FTSE4Good Global Index for the 5th consecutive year. We have also achieved a rating of AA in the Morgan Stanley Capital International (MSCI) ESG Rating for the second year. In recognition of our continuous contributions to the Hong Kong community, we have received the "Sustainability and Social Responsibility Reporting Award" from The Hong Kong Institute of Certified Public Accountants, the "Outstanding Caring Awards (Enterprise Group)" awarded by Federation of Hong Kong Industries, and the "Caring Company" awarded by The Hong Kong Council of Social Service for the 12th consecutive year.

At VTech, we have developed our sustainability management systems and measures to cater for the needs of our stakeholders. We engage with our stakeholders by conducting materiality assessment surveys every year to identify and address their material issues and concerns on our sustainable development. Based on the results of the stakeholder surveys, we focus our sustainability resources and efforts on the five sustainability pillars – Governance and Business Ethics, Product Responsibilities and Value Chain Management, Environment, Our People and Society.

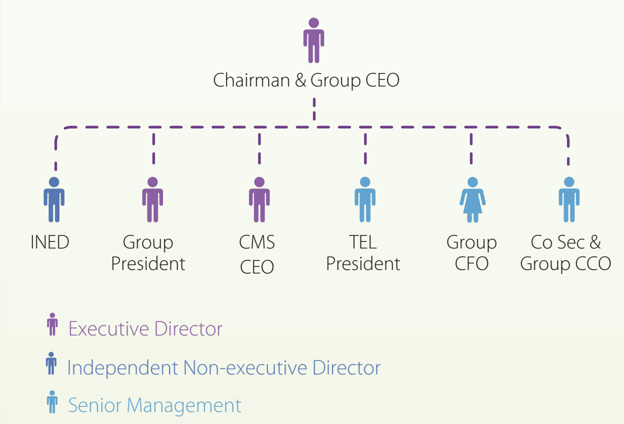
VTech has established a strong foundation for our sustainable growth. Moving forward, with our determination and commitment towards sustainability, we will continue to implement comprehensive programmes to achieve our sustainability targets for our Sustainability Plan 2025. We also strive to balance the impacts of economic growth, environmental protection and social responsibility in our strategic business plan, aiming to drive sustainable value for our customers, employees, shareholders, investors, suppliers and the communities.

Full details of the VTech Sustainability Report 2020 are available on www.vtech.com/en/sustainability/.

Sustainability Management

At VTech, the Risk Management and Sustainability Committee (RMSC) is chaired by Dr. Allan WONG Chi Yun – Chairman and Group Chief Executive Officer (Chairman & Group CEO) with Dr. PANG King Fai – Group President, Mr. Andy LEUNG Hon Kwong – Chief Executive Officer of CMS (CMS CEO), Mr. WONG Kai Man – Independent Non-executive Director (INED), Mr. Hillson CHEUNG Hoi (appointed on 11 May 2020) – President of TEL Products (TEL President), Ms. Shereen TONG Ka Hung – Group Chief Financial Officer (Group CFO) and Mr. CHANG Yu Wai – Company Secretary and Group Chief Compliance Officer (Co Sec & Group CCO), as members – a combination of Executive Directors, an INED and senior management.

Risk Management and Sustainability Committee



RMSC is delegated with the authority from the Board to provide vision and strategic direction for our sustainability activities to ensure that we stay on track and in balance with the three sustainability dimensions of economic, environmental and social impacts at all times. The RMSC is also responsible for reviewing our sustainability strategies and improvement activities, assessing how the policies are implemented in achieving the sustainability goals and targets and monitoring the performance progress on a biannual basis. We also have an escalation process in place to ensure that any identified issues are dealt with at the appropriate level of the Company.

In order to ensure that our sustainability strategies are carried out effectively and consistently throughout the organisation, our RMSC has also formed the Sustainability Sub-Committees comprising key employees from the Company's different product lines and relevant departments. We have organised our sustainability approach into the five sustainability pillars across the Company.

Risk Management and Sustainability Committee
Sustainability Sub-Committee

Sustainability Plan 2025 — Five Pillars

Governance and Business Ethics

- Ensure our corporate governance structure meets the applicable laws and regulations, industry best practice and global trends
- Review and monitor the internal control systems and risk management processes to ensure the overall effectiveness with continuous improvement
- Uphold the highest ethical standards of business integrity and foster a culture of compliance throughout the company

Product Responsibilities and Value Chain Management

- Product Innovation – Design products for the well-being of people and for the benefits of society
- Product Quality – Design products to ensure that they are of good quality and compliant with the highest safety standards
- Eco-friendly Product – Incorporate sustainability concepts into our product design and increase the use of sustainable materials for our products and packaging
- Sustainable Supply Chain – Manage our supply chain in a socially and environmentally responsible manner and source from approved suppliers who meet our VTech's Corporate Social Responsibility requirements

Environment

- Circular Economy and Environmental Management – Analyse, monitor and minimise the associated environmental impacts following our Environmental Management System
- Climate Change Strategy – Review our approach on climate change and develop sustainability initiatives to identify and address the associated physical and transitional risks and opportunities
- Green Manufacturing Practice – Minimise the environmental impacts from our operations
- High Performance Production Chain – Maximise our resource efficiency and improve productivity
- Sustainable Logistic Practice – Improve operational efficiency and reduce carbon emission throughout the transportation process

Our People

- Enhance our good staff relations through various communication channels and staff activities
- Foster a continuous learning environment and encourage employees to develop and advance their careers in VTech
- Respect the labour and human rights of all our employees with clearly defined human resources management policies, and promote an inclusive culture throughout the company
- Provide a supportive, pleasant and healthy workplace for our employees and foster a caring community in our working environment

Society

- Use our expertise and resources to support the communities in which we operate focusing on:
  - Supporting people in need
  - Collaborating with local charities
  - Providing training opportunities for young people
  - Nourishing an innovative environment
  - Developing a healthy and green community

Stakeholder Engagement

Stakeholder engagement is the process through which we stay connected with our customers, employees, shareholders, investors, suppliers and the wider communities in which we operate. We believe that the approach of stakeholder engagement is integral to the development of our sustainability strategy, and is also a pre-requisite for our long-term sustainable growth.

During the engagement process, our Sustainability Sub-Committees identified the broad topics that the stakeholder groups are concerned with, and used a materiality matrix to assess the material topics identified by our stakeholders. A topic is classified as material when it substantially affects our long-term commercial or operational viability, with material impacts on economic, environmental or social topics. This matrix combines VTech's approach to identifying and assessing the material concerns of our stakeholders, and our own materiality scoring methodology by following the principles outlined in the GRI Standards.

Sustainability Pillars

Governance and Business Ethics

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

VTech has developed a comprehensive management structure throughout the years. We have continuously reviewed our company policies and procedures to ensure our corporate governance structure meets the applicable laws and regulations, industry best practice, global trends, and market expectation. To achieve these goals requires both broad ranging and in-depth governance structures and risk management processes.

Business Continuity Management is important for ensuring that we always have a smooth business operation. Our BCM programme not only helps us to identify and mitigate our potential operational risks, but also increases our resilience capability to resume our operations in an effective and timely manner. RMSC has developed an internal risk management structure at both the management and operational levels, which has clearly defined the roles and responsibilities in managing the potential risks in the respective areas, and set up procedures for the execution of our Business Continuity Plan in the event of disruptions. In FY2020, facing the unprecedented challenges from COVID-19, we developed a comprehensive set of precautionary measures and guidelines to tackle the issue following the BCM framework, to ensure the health and safety of our employees and our business operation continues to run smoothly.

Our Code of Conduct is the cornerstone of our governance and operation. It spells out the guiding principles for our staff behaviour that must meet high standards of integrity and honesty. We have additional codes for staff in particular risk-related areas to cover conflicts of interest, bribery, accounting standards and internal management. VTech also operates a Whistleblowing Policy in order to encourage and assist whistleblowers to disclose information relevant to misconduct, malpractices or irregularities through a confidential reporting channel without the fear of recrimination. Any cases are referred to the Group Chief Compliance Officer, who will review the complaints and determine the appropriate mode of investigation and any subsequent corrective action. All reports under the Whistleblowing Policy are reviewed by the Group's Audit Committee on a biannual basis in order to ensure proportionate action and identify the need for any further policy development.

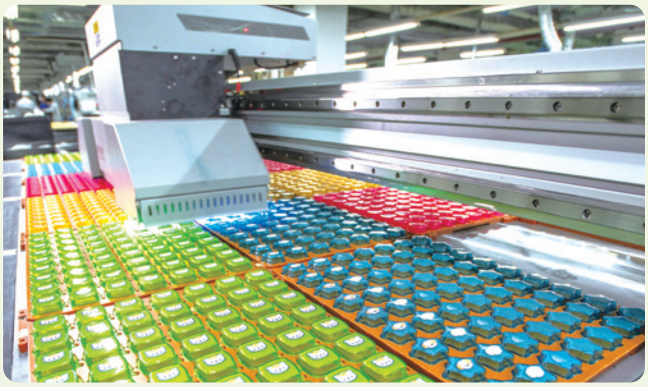
Full details of VTech's Code of Conduct and Whistleblowing policies are available on www.vtech.com/en/investors/corporate-governance/.

The proliferation of new technologies has significantly changed the ways people access information. VTech has established a multifaceted cyber security programme with data and system security policies and measures in place to protect the data and information from any unauthorised access, accidental loss or destruction. The Data Security Governance Board reporting to the RMSC established at the Board level, is also responsible for ensuring that our data security practices are compliant and aligned with international and local laws and regulations, including but not limited to the applicable privacy ordinances in the respective countries and the General Data Protection Regulation in Europe.

Product Responsibilities and Value Chain Management

VTech strives not only to provide high quality products and comply with the highest international and local quality and safety standards, but also incorporate sustainability concepts into product design in order to enhance the well-being of our customers and benefit the society. Our management approach continues to focus on two key management principles – "Design for Excellence" and "Design for People". VTech is dedicated to continuing improvement on our products to make them more sustainable and eco-friendly.

Our designers and engineers are required to follow the requirements on the Life Cycle Analysis checklist to select more eco-friendly product and packaging materials, reduce the use of materials and energy, maximise the use of reusable items and avoid disposal of recyclable materials to landfill during the product development stage. In order to minimise the environmental impact of the colouring process, we have extended the use of waterborne paint in our products and packaging and adopted the overmolding and inkjet printing technologies. Our next step is to extend our product life cycle from cradle-to-grave to cradle-to-cradle, through the increasing use of sustainable materials and engaging in recycling programmes for our products and packaging.



Inkjet Printing Technology

VTech is also committed to designing and manufacturing products that meet the highest international and local health and safety standards. All our manufacturing facilities are certified with Quality Management System: ISO 9001. We have implemented a stringent quality control system, from incoming materials inspection, in-process quality audit, finished goods quality assessment, to after-sales management to ensure that our products meet the required specifications and are free from defects at the time of delivery. As product safety is always our number one priority, VTech continues to strengthen our quality assurance and management programmes throughout the whole product life cycle from the early stage of product design, to the after-sales services and warranties.

As a global leader in electronic learning products and cordless telephones, VTech strives to develop and supply high quality and innovative products for the well-being of our customers and benefit the society. We have launched Anti-Bacteria Hotel Phones which are designed to mitigate the spreading risk of common bacteria for the users, and Amplified Bluetooth Cordless Phone that allows users to enjoy high-quality amplified calls with or without a landline. VTech has also launched many new learning products to inspire the creativity of children. These include our Mix & Match-a-Saurus, an interactive product designed to develop the social and communication skills of the kids at their early learning stage, and Go! Go! Cory Carson, a car family with parents, kids and friends to engage children to play with learning and fun. VTech CMS also produced a compact and portable hearing instrument test chamber for its customer, which is used for testing the hearing aid equipment. As for the environmentally friendly products, we continue to develop Digital Enhanced Cordless Telecommunication cordless phones with Blue Angel eco-label, and have upgraded our power adaptor to the level VI standard with Energy Star eco-label.

As for our supply chain management which is crucial for the sustainable operations, we have a well-established "Supply Chain Management System" to monitor the quality of our suppliers as well as their environmental and ethical performance in accordance with VTech's Corporate Social Responsibility (CSR) requirements. In FY2020, we arranged CSR workshop for our key suppliers, focusing on enhancing their knowledge on energy and water saving projects, supply chain CSR management, and social responsibility practices.

Environment

As an environmentally conscious and sustainable company, VTech is committed to protecting the environment and easing the impacts of climate change with target towards a circular economy. We recognise that climate change could create uncertainties in our business development. In our new 5-year Sustainability Plan 2025, we have developed "Climate Change Strategy" to assess how climate change could affect our business operations, identified the associated risks and opportunities, and developed sustainability initiatives to address them in the coming five years.

Two key principles – "produce for quality" and "produce for efficiency" – are the main drivers for our manufacturing process improvement. We have been implementing the low cost automation and lean manufacturing programme to maximise our resources utilisation and improve our productivity without compromising the quality of our products, while aiming to reduce the potential environmental impacts throughout the manufacturing process.

The major environmental impacts from VTech's operations relate to energy and water consumption, waste production and logistics. We have incorporated the 3Rs (Reduce, Reuse, and Recycle) principle into our manufacturing process, and established energy and resources management system to better utilise the resources in our manufacturing process, aiming to reduce the energy and water consumption, minimise the waste production and improve the reuse rate of resources.

VTech aims to operate its manufacturing processes and facilities in a manner that minimises the impacts to the environment, and ensure that our operations are compliant with all the relevant environmental, legal and statutory requirements. By implementing the high performance production chain and lean manufacturing programmes, we have improved our resources efficiency and productivity while maintaining our green manufacturing practice. In FY2019, we had taken our first step on switching to renewable energy by installing solar panels on rooftop of a dormitory in our manufacturing site. We have also replaced a total of 48 LED street lamps with 100W solar LED lamps in our factory.

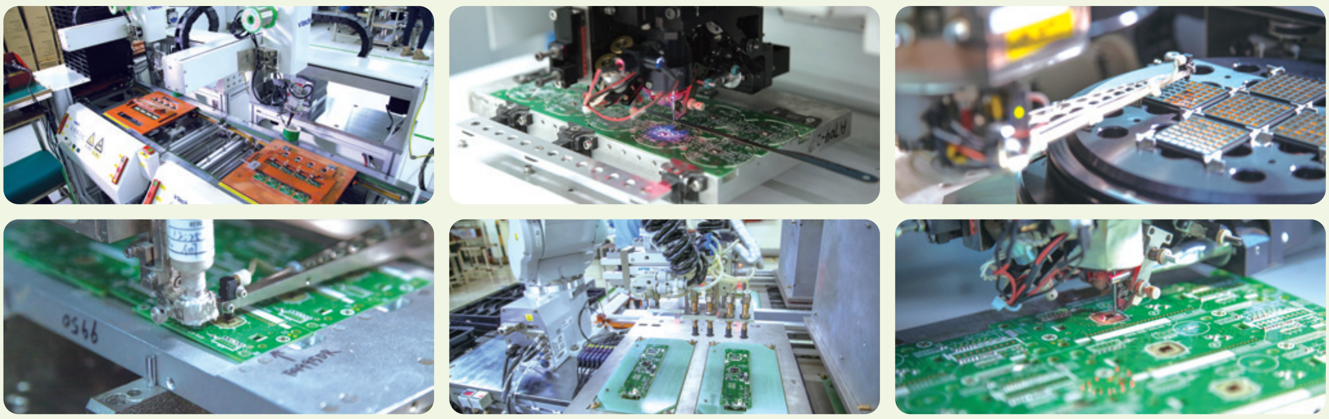
Through the adoption of a green logistic management approach, and choosing the most eco-friendly transportation mode for delivering our incoming materials from suppliers and outgoing products to our customers, we have also further reduced the Green House Gas (GHG) emissions. With the continuous implementation of green manufacturing and logistic programmes, we have managed to reduce CO_2 emission per production output in our assembly factories and plastic plants by 22.7% and 24.6% respectively compared with FY2014.

VTech has also continuously worked with different government bodies to minimise the environmental impact of our production facilities. Our TEL products manufacturing site has been certified as the "Hong Kong – Guangdong Cleaner Production Excellent Partners" by the Hong Kong Productivity Council and Guangdong Provincial Government in recognition of our positive contribution to improving the air quality and local environment since FY2011. It has also been recognised as the "Clean Production Enterprise in Guangdong Province" by the Guangdong Provincial Government since FY2012, and "Dongguan Environmentally Friendly Enterprise" by the Dongguan, Guangdong Province Environmental Protection Bureau in mainland China since FY2011. Moreover, our Volatile Organic Compounds (VOCs) purification system was recognised as "Demonstration Project" under the Cleaner Production Partnership Programme of Hong Kong Productivity Council in FY2019. All our existing manufacturing sites of our TEL products, ELPs and CMS are certified with the ISO 14001 standard for environmental management, demonstrating that we are committed to continuous improvement on environmental protection.

We also strive to reduce the emission of VOCs from our manufacturing process, which may have negative impact on the environment. We have installed a VOCs purification system in our factory, which has significantly reduced VOCs emission in the exhaust gas generated during the production process.

In prior years, we had installed a rainwater harvesting system at manufacturing area, to reuse rainwater for watering our gardens and green roofs, and toilet flushing. We have extended the rainwater harvesting system to the living area to further reduce our water consumption.

We also continue to implement various water saving campaigns at our dormitories and manufacturing sites to reduce water consumption. With our extensive effort in carrying out different water saving programmes, we have managed to reduce the total water consumption and total water consumption per production output by 39.4% and 44.6% respectively compared with FY2014.



Low Cost Automation

We are committed to minimising the potential environmental impacts from our operations with the following principles:

- Comply with all relevant environmental, legal and other statutory requirements
- Maintain an Environmental Management System in line with the requirements of ISO 14001
- Quantify and monitor the significant environmental impacts of our activities, products and services and set specific targets for improvement where appropriate, and review these annually
- Integrate environmental objectives into our business decisions in a cost effective manner
- Require all staff to address environmental responsibilities within normal operating procedures
- Enhance awareness of environmental and resource efficiency issues amongst our customers, suppliers, staff and stakeholders through improvement projects and programmes in the respective areas

Our People

In order to meet the above requirements in a sustainable manner, VTech has functional teams comprising individuals from different product lines and departments across the organisation. Our environmental policy is reviewed annually to ensure that it is relevant and up to date.

VTech aims to provide a supportive, pleasant and healthy workplace for our employees, and to foster a caring community in our working environment. We care for our employees and recognise that having good staff relations and a motivated workforce play a vital role in the Company's efficient operations. All our existing VTech assembly and plastic factories are certified with the Occupational Health and Safety Management Systems ("OHSAS 18001 or ISO 45001"). Our TEL products and CMS assembly factories are also certified with Social Accountability ("SA 8000") certification and ELPs with ICTI Ethical Toy Program compliance certification. These external verified certifications demonstrate our compliance with local laws and high quality working conditions.

Our human resources management policy builds on our four key values – "Communication and Staff Relations", "Advancement in Careers", "Respect of Labour and Human Rights", and "Environment for Our People" (CARE). To ensure the effectiveness of our workplace management system, we conduct employee satisfaction survey regularly and have cross functional teams and committees at different manufacturing sites, to determine goals and targets, discuss new projects, and review project progress on improvement of workplace and employees related issues based on the feedback from our people.

VTech recognises open communications is an important element in achieving effective workplace management system. We encourage employees to voice out their opinions through various communication channels at all levels throughout the Company. All information, opinions and suggestions gathered from employees are followed up by our employee relations team. VTech also believes staff relationship could be further strengthened by their participations in different kinds of staff activities. Our Staff Association continues to organise various activities including sports, leisure, social events and outing for our employees.

Staff Activities

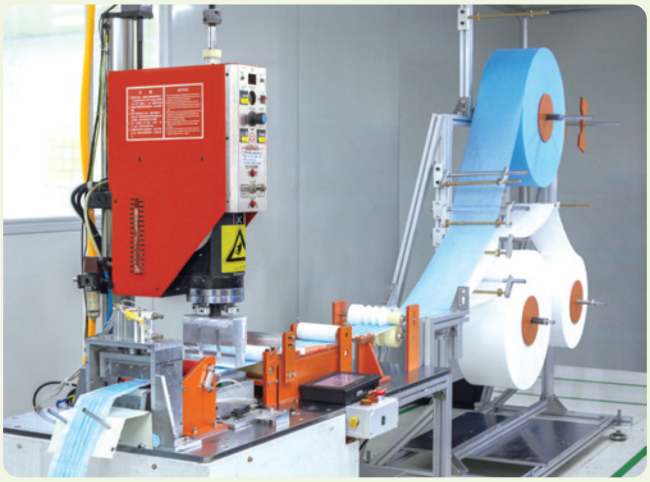
VTech encourages our employees to develop and advance their careers in our Company. We also actively promote continuous learning initiatives and develop a wide range of training programmes for our employees. With our effort in promoting continuous learning, the average training hours per employee increased by 9.5% compared with the previous financial year. We are also committed to respecting the labour and human rights of all our staff with clearly defined human resources management policies. We have procedures in place to ensure that our policies are properly implemented throughout the Company. Any issues or enquiries raised by our employees through different communication channels will be handled and investigated by the Company with care and in a confidential manner.

As for the working environment, we always put workplace safety as our number one priority. We also have Employee Health and Safety (EHS) teams at all our manufacturing sites to conduct regular health and safety audit, and provide different training programmes for our people. With our continuous activities and efforts focusing on workplace safety, our health and safety training hours per employee continued to increase compared with the last financial year, and we did not have any work related fatality case.

The majority of employees in our mainland China manufacturing facilities are from different provinces of the country. We recognise that to make them feel at home, and have a sense of belonging while they are living in our dormitories are very important for our people. We have continuously upgraded the dormitories at our manufacturing sites.

In order to fight against the COVID-19 in the workplace, VTech has adopted various precautionary measures following the guidelines issued by the local governments where we operate. Our Hong Kong office has special arrangements to allow flexible working hours and reduce daily working hours in order to minimise the rush hour travelling for our employees. Infection prevention initiatives have also been taken to disinfect the workplace and ensure good ventilation in the office area. We provide face masks to our staff and encourage them to wear masks in the office and when taking public transportation. We also monitor body temperatures for visitors and staff entering the office area, and encourage staff to reduce or postpone all non-essential overseas travelling.

Before resuming work at all VTech factories in mainland China, a comprehensive set of preventive measures and guidelines have been put in place, in accordance with the guidelines issued by the respective local city governments and World Health Organisation. We provide health protection and personal hygiene guidelines to our workers, monitor their physical condition while they are working in the factories, give our in-house produced face masks for them to wear in the workplace, and arrange separate meals with seats and tables maintaining social distance in the canteen. As for our overseas staff who are working from home under lockdown environment, we also provide face masks to all of them individually to protect their health and safety.



Top: Mask Production for Staff
Bottom: Body Temperature Measurement at Office Entrance; Social Distancing at Canteen; Body Temperature Measurement at Factory Entrance

Society

As a responsible corporate citizen, VTech uses its expertise and resources to support the communities in which it operates in various ways, focusing on helping people in need, collaborating with local charities to support the local charitable events, providing training opportunities for young people, nourishing an innovative environment and developing a healthy and green community.

Since the establishment of VTech's voluntary teams in different manufacturing sites and global offices, we have participated in various voluntary events, and created a strong social network to assist and support the people in need. We also encourage our employees and their families to participate in our volunteering activities, bringing positive impact to the people and the society. In FY2020, we had recruited over 2,600 volunteers and contributed over 23,000 volunteering hours for the communities, which has increased by 7.5 times compared with FY2014.

As the rapid spread of COVID-19 has caused a severe shortage of medical equipment supply, VTech has donated baby monitors and surgical masks to support the front-line medical staff of the hospitals in the US, Canada and mainland China. We have also launched a "#LearnThroughThis" campaign in the US to assist parents to keep their kids learning and playing while they are staying at home. The programme includes comprehensive resources such as free downloadable content with articles, printable activity books and educational activities curated by our team of learning experts. In addition, we have partnered with AdoptAClassroom.org to support the teachers and educators to provide online training classes for the students and communities. We have also pledged to match all donations to their COVID-19 Disaster Relief Fund up to US$ 50,000.



Clockwise from top left: Baby Monitor Donation to Medical Staff in Canada; Mask Donation to Hospital in mainland China; "#VTechEnsemble" Campaign; "#LearnThroughThis" Campaign; Drawings Showing Appreciation for Medical Staff; Phone Donation in Germany

VTech has been presented with "Heart to Heart Company" by the Hong Kong Federation of Youth Groups and we are the proud recipient of the "Outstanding Caring Awards (Enterprise Group)" presented by Federation of Hong Kong Industries in FY2020. VTech has also been awarded the "Caring Company" by The Hong Kong Council of Social Service for the 12th consecutive year in recognition of our continuous contribution to the Hong Kong community. These included fund raising for the blind, organising blood donation events at our office, and providing healthy meals for the needy. In FY2020, over 10,000 pieces of toys were donated to five charitable organisations including Tai Po Baptist Church Social Service, Christian Action, Caritas Hong Kong, St. James' Settlement and Plan International Hong Kong. The voluntary team from our mainland China manufacturing sites has also arranged regular school visits to the remote areas of mainland China, and donated books and electronic learning toys to the children. Our Canada volunteer team has also participated in the fund raising campaigns run by Movember Foundation for the sixth year.

VTech also sponsors our staff to take part in different sport activities organised by the local charities. In FY2020, our employees participated in the Sowers Action Challenging 12 Hours Charity Marathon 2019 and Hong Kong Streetathon 2020. VTech was the "Bronze Sponsor" for Sowers Action Challenging 12 Hours Charity Marathon 2019 and presented with the "Brilliant Participation – Gold Award". A total of 48 participants was separated into 12 teams to join the race. One of our teams won the champion in 53km Corporate Team. Two teams were the 1st runner-up and 2nd runner-up in 26km Corporate Team. Additionally, we were the "Gold sponsor" of Hong Kong Streetathon 2020 with 83 VTech runners participating in the run.

VTech Dragon Boat Team has participated in various Dragon Boat races for over one decade. As always, our dedicated team members are devoted to intensive and comprehensive training to improve their physical fitness and skill levels. In FY2020, VTech continued to sponsor the "VTech Cup" in the Shatin Dragon Boat Race for the third consecutive year.

We also collaborated with local charities to support various charitable activities around the world. In FY2020, we made charitable and other donations of over US$198,000.

VTech recognises that attracting the best talents is important for the sustainable growth of the Company. We regularly recruit interns from local universities and organise various workshops with schools for the young people. To nourish an innovative environment and stay ahead of the latest trends and developments in the industry, we also support various technology forums and participate in a number of trade associations around the world. In FY2020, we extended the scholarships awards to cover more local universities including the Hong Kong Polytechnic University, the City University of Hong Kong, the Hong Kong University of Science and Technology and the Chinese University of Hong Kong.

VTech is a keen supporter for developing a healthy and green community. We not only dedicate our efforts to minimising the environmental impacts from our operations, but also participate in different community events to develop and promote a healthy and green lifestyle for our people and the community. Our volunteers have continued to sign up the pledge for Earth Hour and partner with the Greeners Action in the Red Packets Recycling Scheme to encourage the recycling of materials. We have also partnered with Trailsweeper to educate our employees to become active agents in keeping our hiking trail clean and trash free.

Top: Movember Foundation in Canada; Annual Holiday Charity Raffle in the U.S.; Visit to The Elderly
Bottom: VTech Book Corner

VTech makes every effort to strengthen the long-term relationships it enjoys with shareholders and investors. We engage with them in meetings throughout the year, as well as participate in investment conferences and roadshows. Keeping stakeholders up to date in this way ensures a thorough understanding of the Group's business in light of developments as they occur.

Shareholder Value

Our goal is to create sustainable value over the long term for our shareholders through a total return based on share price performance and regular dividend payments. Our success in achieving this in recent years has led to our inclusion in key indexes.

VTech Share Price in Last 10 Years
(1 April 2010 – 31 March 2020)

Source: Bloomberg L.P.

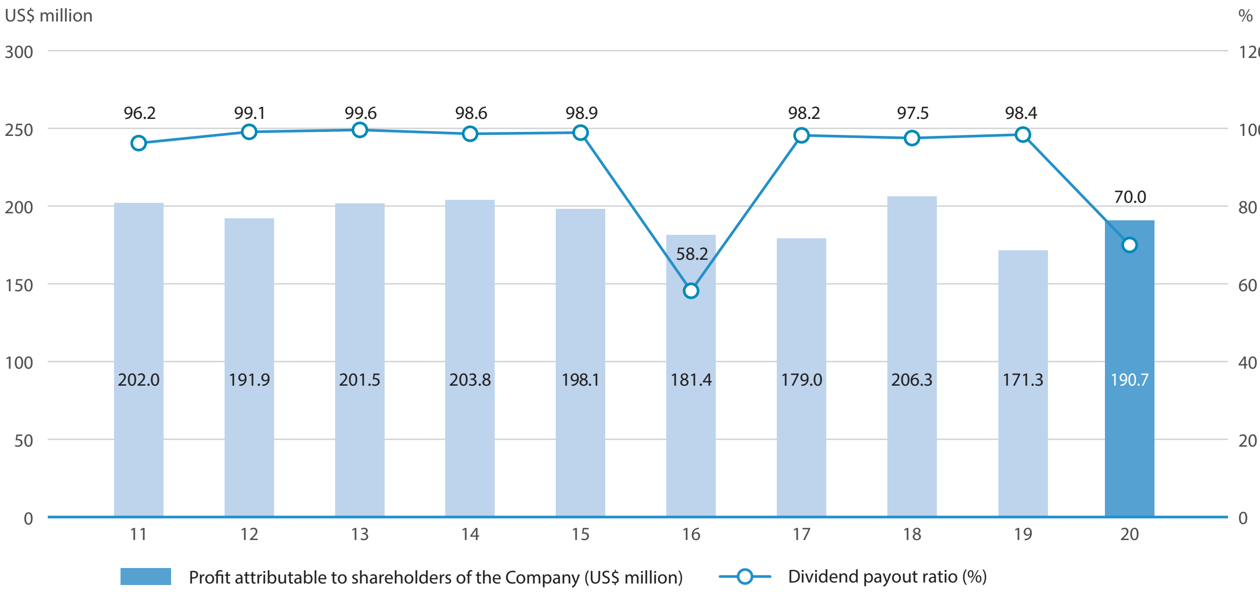
Share Price Performance

For the year ended 31 March	**2020**	2019
Highest closing price	**HK$82.60** (1 April 2019)	HK$99.35 (11 April 2018)
Lowest closing price	**HK$54.20** (30 March 2020)	HK$63.55 (3 January 2019)

Dividend Payments

The Group's dividend payout ratio is determined by various factors, including the actual and expected financial performance of the Group, global economic conditions, the Group's business strategies, liquidity position and capital requirements. The dividend payout ratio in the financial year 2020 amounted to 70.0% of the profit attributable to shareholders of the Company, against 98.4% in the financial year 2019. Further details of the Group's dividend policy are set out in the Corporate Governance report on page 48.

Profit Attributable to Shareholders of the Company and Dividend Payout Ratio in Last 10 Years



Index Recognition

VTech has been a constituent stock of the Hang Seng High Dividend Yield Index since this was launched in December 2012. The index comprises the 50 stocks and/or real estate investment trusts listed on The Stock Exchange of Hong Kong Limited with the highest net dividend yield. In 2017, the Group became a constituent stock of the Hang Seng SCHK (Stock Connect Hong Kong) High Dividend Low Volatility Index. Launched in May 2017, this index tracks the performance of the top 50 Hong Kong-listed stocks with a high dividend yield and low volatility that are eligible for Southbound Trading under Hong Kong Stock Connect. VTech is also a constituent stock of the Hang Seng Corporate Sustainability Benchmark Index and FTSE4Good Global Index, a recognition of our high levels of environmental, social and corporate governance performance.

Corporate Governance

We believe that high standards of corporate governance underpin the effective execution of corporate strategy and, in consequence, our ability to generate increasing value for shareholders over the long term. Details of our progress in this respect can be found in the Corporate Governance report on pages 37 to 48.

Investor Communications

The Group's investor communications are governed by a Shareholders Communication Policy, which is available on the Group's website. The policy sets out procedures for providing shareholders and investors with equal and timely access to information about the Company that is both accurate and readily understandable.

We maintain a continuous dialogue with our shareholders and potential investors, listening attentively to their views and informing them of material developments in our markets and operations. The channels we normally use to communicate with stakeholders include:

- Analyst briefings on the Group's interim and annual results, including a webcast and presentation materials posted on the corporate website
- Investor conferences and post-results roadshows
- Meetings and conference calls
- Visits to the Group's manufacturing facilities
- An easily accessible Investors section on the corporate website, containing all key information
- A designated email for investors that makes communication easier

Share Listing

Shares of VTech Holdings Limited are:

- Listed on The Stock Exchange of Hong Kong Limited
- On the list of Southbound trading through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect

Stock Code

The Stock Exchange of Hong Kong Limited: 303

Share Information

Board lot: 100 shares

Issued shares as at 31 March 2020: 251,779,133 shares

Dividend

Dividend per ordinary share for the year ended 31 March 2020

- Interim dividend: US17.0 cents per share
- Final dividend: US36.0 cents per share

Share Registrars

Principal

MUFG Fund Services (Bermuda) Limited
4th Floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong
Tel: (852) 2862 8555
Fax: (852) 2865 0990
Email: hkinfo@computershare.com.hk

FINANCIAL CALENDAR

7 – 10 July 2020 (Both days inclusive)	Closure of Register of Members – Annual General Meeting
10 July 2020	2020 Annual General Meeting
16 July 2020	Closure of Register of Members – Payment of Final Dividend
27 July 2020	Payment of Final Dividend
November 2020	2020/2021 Interim Results Announcement
May 2021	FY2021 Annual Results Announcement

INVESTOR RELATIONS CONTACT AND WEBSITE

Corporate Marketing Department
23rd Floor, Tai Ping Industrial Centre, Block 1
57 Ting Kok Road
Tai Po, New Territories
Hong Kong

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Fax: (852) 2680 1788

Email: investor_relations@vtech.com

www.vtech.com/en/investors

Corporate Governance Practices

VTech Holdings Limited 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") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Throughout the year ended 31 March 2020, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviation from code provision A.2.1 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. The Board of Directors (the "Board") considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and its subsidiaries (the "Group") as half of the Board members are independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

The key corporate governance principles and practices of the Company are set out below.

Board of Directors

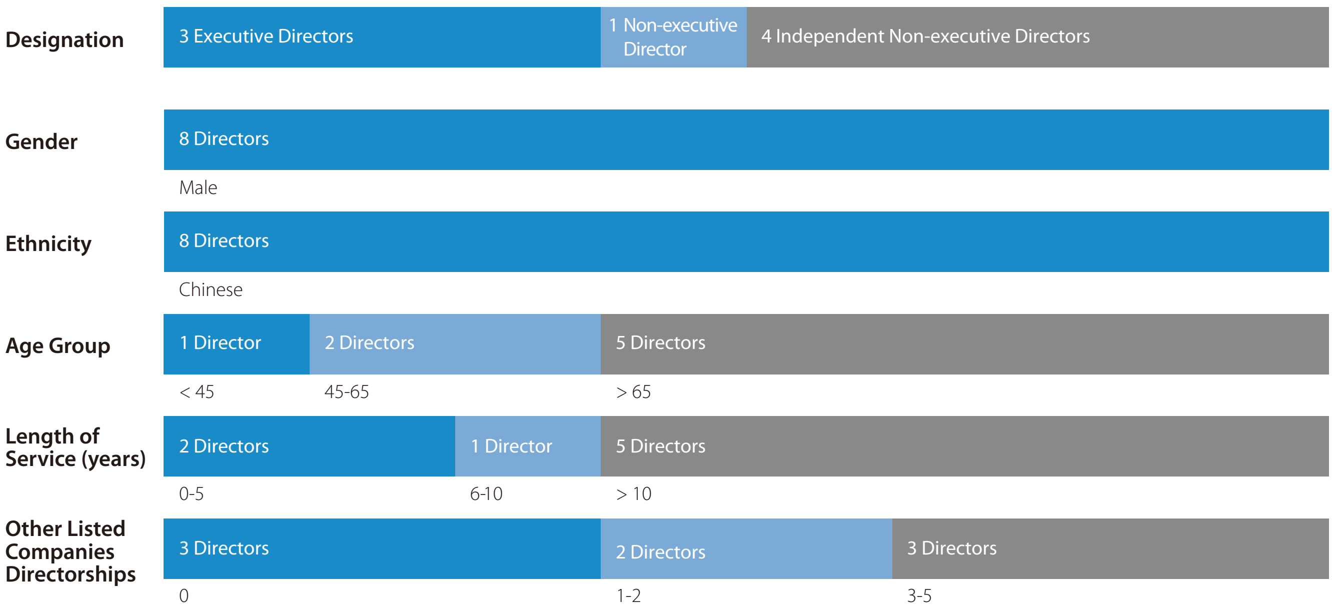
Board Composition

The Board currently comprises three executive Directors, one non-executive Director and four independent non-executive Directors. The independent non-executive Directors are executives of high calibre with diversified industry expertise and bring a wide range of skills and experience to the Group. They bring to the Company independent judgement on issues of strategy, performance, risk and human resources management through their contribution at Board meetings.

Details of all Directors and their biographies, including relationship between the Board members are set out on pages 49 to 50 of this Annual Report.

The Board composition and Board skills and experience are set out below:

(i) Board Composition



Board of Directors (Continued)

Board Composition (Continued)

(ii) Board Skills and Experience

	Industry and Manufacturing	Mainland China	Global Business	Technology	Logistics/ Supply Chain	Accounting Professional/ Legal and Compliance
Executive Directors						
Allan WONG Chi Yun *(Chairman)*	✔	✔	✔	✔	✔	
PANG King Fai	✔	✔	✔	✔	✔	
Andy LEUNG Hon Kwong	✔	✔	✔	✔	✔	
Non-executive Director						
William WONG Yee Lai *(appointed on 12 November 2019)*	✔		✔	✔		
Independent Non-executive Directors						
William FUNG Kwok Lun	✔	✔	✔	✔	✔	
KO Ping Keung	✔	✔	✔	✔		
Patrick WANG Shui Chung	✔	✔	✔	✔	✔	
WONG Kai Man	✔	✔	✔	✔		✔
Total (in number):	**8**	**7**	**8**	**8**	**5**	**1**
Total (in percentage):	**100%**	**88%**	**100%**	**100%**	**63%**	**13%**

In addition, the Directors disclose to the Company the number and nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved on a biannual basis. Directors are also reminded to notify the Company in a timely manner any changes of such information.

Roles and Responsibilities of the Board

The Board's focus is on the formulation of business strategy and policy, and control. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include, but not limited to the following:

– deliberation of business plans, risk management, internal control, sustainability strategies, improvement activities and performance progress against the sustainability target;

– preliminary announcements of interim and final results, interim and annual reports, and sustainability reports;

– dividend policy;

– annual budgets;

– major corporate activities such as material acquisitions and disposals, and connected transactions; and

– Directors' appointment, re-election and removal.

The Board may delegate part of its functions and duties to executive committees and day-to-day operational responsibilities are specifically delegated to the management, specifying matters which require approval by the Board.

Board of Directors (Continued)

Appointment and Re-election of Directors

All Directors are appointed for a specific term of three years and are subject to retirement by rotation and re-election at least once every three years at the annual general meetings under the Company's Bye-laws. In accordance with the Company's Bye-laws, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. In addition, any Director appointed by the Board during the year, either to fill a casual vacancy or as an addition to the Board, shall hold office until the next annual general meeting and shall be subject to retirement by rotation.

Independence of Independent Non-executive Directors

The Board has received from each independent non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board considers that the four independent non-executive Directors are independent in character and judgement and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules. The written annual confirmation from each of the independent non-executive Directors of his independence also covered his immediate family members (as defined under the Listing Rules).

When assessing the independence of the independent non-executive Directors, the Board and the Nomination Committee will consider the character and judgement demonstrated by the Director's commitment and contribution to the Board and other relevant factors such as expertise, experience, and stability to the Board. Notwithstanding that some independent non-executive Directors have served as Board members for more than nine years, this does not and would not affect their independent judgement as they have been providing objective view and independent opinion to the Company over the years, and have continued to demonstrate a firm commitment to their independent roles. There is no business or other relationships or circumstances that are likely to affect their independent judgement.

Any further re-appointment of an independent non-executive Director who has served the Board for more than nine years are subject to a separate resolution to be approved by shareholders. Reasons will be given in the circular to shareholders to explain why the Board believes those independent non-executive Directors are still independent and should be re-elected. If the independent non-executive Director will be holding his seventh (or more) listed company directorship, the Board will explain in the circular why he will still be able to devote sufficient time to the Board.

Board, Board Committees and Shareholders' Meetings

Four Board meetings at approximately quarterly intervals are scheduled with other meetings held as required. Dates of regular Board meetings and Board Committees meetings are scheduled in the prior year to facilitate maximum attendance of Directors. The draft agenda for regular meetings of the Board and Board Committees is usually sent to the Directors at least 14 days before the intended date of the meetings. Directors are advised to inform the Chairman of the Board and Board Committees before the meeting if they wish to include any matters in the agenda. The agenda together with the Board papers are usually sent to the Directors at least 3 days before the meetings. Minutes of the meetings of the Board and Board Committees record in sufficient detail the matters considered by the Board and Board Committees, the decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of the minutes of the meetings of the Board and Board Committees are sent to all Directors or respective Board Committees members for their comment and records within a reasonable period after the meetings are held. Minutes of the meetings of the Board and Board Committees are kept by the Company Secretary of the Company (the "Company Secretary"). All Directors have access to the advice and services of the Company Secretary and independent professional advice may be sought by the Directors if required.

Board of Directors (Continued)

Board, Board Committees and Shareholders' Meetings (Continued)

The attendance of the Directors at Board Meetings (BM), Audit Committee Meetings (ACM), Nomination Committee Meeting (NCM), Remuneration Committee Meeting (RCM), Risk Management and Sustainability Committee Meetings (RMSCM) and Annual General Meeting (AGM) during the financial year is set out below:

	Meetings attended/Eligible to attend					
Directors	**BM**	**ACM**	**NCM**	**RCM**	**RMSCM**	**AGM**
Executive Directors						
Allan WONG Chi Yun *(Chairman)*	4/4	–	1/1	–	2/2	1/1
PANG King Fai	4/4	–	–	–	2/2	1/1
Andy LEUNG Hon Kwong	4/4	–	–	–	2/2	1/1
Non-executive Director						
William WONG Yee Lai *(appointed on 12 November 2019)*	1/1	–	–	–	–	–
Independent Non-executive Directors						
William FUNG Kwok Lun	4/4	2/2	1/1	1/1	–	1/1
KO Ping Keung	4/4	2/2	1/1	1/1	–	1/1
Patrick WANG Shui Chung	4/4	2/2	1/1	1/1	–	1/1
WONG Kai Man	4/4	2/2	1/1	1/1	2/2	1/1

In addition to the regular Board meetings, the Chairman also held regular meetings with the independent non-executive Directors without the presence of the executive Directors during the financial year.

Board Evaluation

The Board recognises the importance and benefits of conducting regular evaluation of its performance. Since 2017, the Board has adopted a structured process to evaluate its own performance every two years in the form of a questionnaire to all Directors individually with the aim of improving the effectiveness of the Board and Board Committees. The areas covered included composition, effectiveness, and process of the Board and Board Committees.

The evaluation results of the Board and Board Committees for the financial year 2018/2019 indicated that the Directors broadly agreed that the Board operates satisfactorily, and they were satisfied, in general, with the composition and effectiveness of each Board Committees. The evaluation result was circulated to the Board for review and discussion at the Board meeting in May 2019, and was also presented to the respective Board Committees for follow-up during the financial year.

Board Committees

The Board has delegated authority to various Board Committees to deal with specific matters. An Audit Committee, a Nomination Committee, a Remuneration Committee, and a Risk Management and Sustainability Committee were established with defined terms of reference which are no less exacting than those set out in the Code. The composition and charter of the Board Committees are reviewed and updated periodically to ensure that they remain appropriate and in line with the Group's business and changes in governance practices.

Board Committees (Continued)

Board of Directors

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Board Committees

Audit Committee	Nomination Committee	Remuneration Committee	Risk Management and Sustainability Committee
Mr. WONG Kai Man* *(Chairman)* Dr. William FUNG Kwok Lun* Professor KO Ping Keung* Dr. Patrick WANG Shui Chung*	Dr. William FUNG Kwok Lun* *(Chairman)* Professor KO Ping Keung* Dr. Patrick WANG Shui Chung* Mr. WONG Kai Man* Dr. Allan WONG Chi Yun	Dr. Patrick WANG Shui Chung* *(Chairman)* Dr. William FUNG Kwok Lun* Professor KO Ping Keung* Mr. WONG Kai Man*	Dr. Allan WONG Chi Yun *(Chairman)* Dr. PANG King Fai Mr. Andy LEUNG Hon Kwong Mr. WONG Kai Man* Mr. Hillson CHEUNG Hoi[#+] Ms. Shereen TONG Ka Hung[#] Mr. CHANG Yu Wai[#]
Roles and Responsibilities	**Roles and Responsibilities**	**Roles and Responsibilities**	**Roles and Responsibilities**
It has been established to assist the Board in fulfilling its responsibilities for overseeing financial reporting, risk management, corporate governance functions, and evaluation of internal control and auditing processes. It also ensures that the Group complies with all applicable laws and regulations. It is also responsible for overseeing the effectiveness of formal procedures for employees to raise any matters of serious concerns and is required to review any reports made by the Internal Audit Department in this regard.	It is responsible for reviewing the structure, size and diversity of the Board, identifying and nominating candidates for appointment to the Board, assessing the independence of the independent non-executive Directors, assessing the time commitment of a proposed independent non-executive Director and the length of service, making recommendations to the Board on the re-appointment of the Directors and succession planning for the Directors, and reviewing the Nomination Policy and the Board Diversity Policy periodically, and recommending revisions to such policies to the Board.	It is responsible for reviewing and recommending all elements of the executive Directors' and senior management's remunerations, including the granting of share options and share award to employees under the Company's share option scheme and share award scheme, to the Board.	It is responsible for monitoring and reviewing the risk management and sustainability strategies of the Group and Sustainability Report on a regular basis, and reports to the Audit Committee on a biannual basis of any significant findings. It is also delegated with the authority from the Board to provide vision and strategic direction for our sustainability activities, reviews our sustainability strategies and improvement activities, assesses how the policies are implemented in achieving the sustainability goals and targets, and monitors the performance progress on a biannual basis.

* *Independent Non-executive Directors*
\# *Senior Management*
\+ *appointed on 11 May 2020*

Board Committees (Continued)

Audit Committee

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

- Group's audited consolidated financial statements and reports for the year ended 31 March 2019;
- report from the external auditor for the year ended 31 March 2019;
- corporate governance report setting out the corporate governance practices in the 2019 Annual Report in compliance with the Code;
- Group's unaudited Interim Financial Report for the six months ended 30 September 2019 in the 2019/2020 Interim Report;
- report from the external auditor based on limited agreed-upon procedures on the Group's unaudited Interim Financial Report for the six months ended 30 September 2019 in the 2019/2020 Interim Report;
- corporate governance section setting out the corporate governance policies and practices in the 2019/2020 Interim Report in compliance with the Code;
- accounting principles and practices adopted by the Group;
- re-appointment of the external auditor and its remuneration for the year ended 31 March 2020;
- fee level and nature of non-audit work performed by the external auditor for the year ended 31 March 2019;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- reports made under the Whistleblowing Policy;
- respective audit plans of the internal and external auditors;
- training and continuous professional development of the Directors and senior management;
- 2019 Sustainability Report; and
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

On the date of this Annual Report, the Audit Committee met to review the Group's audited consolidated financial statements and reports for the year ended 31 March 2020 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The financial results of the Group for the year ended 31 March 2020 have been reviewed with no disagreement by the Audit Committee.

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

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

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

Board Committees (Continued)

Nomination Committee

The Nomination Committee has held one meeting during the financial year. The work performed by the Nomination Committee during the financial year included, but not limited to, discussing the succession planning process and reviewing the following:

- structure, size and diversity of the Board;
- individuals suitably qualified for appointment as Director;
- measurable objectives under the Board Diversity Policy and its progress;
- independence of the independent non-executive Directors; and
- re-election of retiring Directors at the forthcoming 2020 annual general meeting of the Company to be held on 10 July 2020 (the "2020 AGM"), including the assessment on the ability to devote sufficient time to the Board and the length of service of the proposed independent non-executive Director according to the requirements of the Listing Rules.

In addition, the Nomination Committee considered the appointment of Mr. William WONG Yee Lai as a non-executive Director with reference to the broad and diverse range of aspects specified in the Nomination Policy and Board Diversity Policy, and recommended his appointment to the Board for consideration and approval. The appointment was accepted by the Board in November 2019.

Nomination Policy

The Nomination Policy sets out the selection criteria and procedures for the Nomination Committee to select and recommend suitable candidates for directorship with a view to ensuring that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Committee shall consider a variety of factors in assessing the suitability of a proposed candidate for directorship, including but not limited to the following selection criteria:

- Board Diversity Policy;
- accomplishment and experience appropriate to the requirements of the Company's business;
- commitment in respect of sufficient time, interest and attention to the Company's business;
- compliance with the criteria of independence under the Listing Rules for the appointment of independent non-executive Director; and
- any other relevant factors as may be considered by the Nomination Committee from time to time.

If the Board recognises the need to appoint a new director subject to the provisions in the Company's Bye-laws, the Nomination Committee, with or without assistance from external agencies, shall identify candidates in accordance with the selection criteria set out in the Nomination Policy, evaluate the candidates and recommend to the Board the appointment of the appropriate candidate for directorship. The Board decides the appointment based upon the recommendation of the Nomination Committee and the Board has the final authority on determining suitable director candidate for directorship.

Candidates for appointment as Directors may also be sourced internally or externally through various channels such as using the services of specialist executive search firms. The aim is to appoint individuals of the highest calibre in their area of expertise and experience.

Board Diversity Policy

The Board Diversity Policy sets out the approach to achieve diversity on the Board. The Nomination Committee monitors the implementation of the Board Diversity Policy and has the responsibility in leading the progress for Board appointments. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, skills, knowledge, industry and professional experience, business perspectives and the legitimate interests of the Company's principal shareholders.

Selection of candidates for Board appointments will be considered taking into account a range of aspects set out in the Board Diversity Policy. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Having reviewed the Board composition, the Nomination Committee recognises the importance and benefits of the gender diversity at the Board level and shall continue to take initiatives to identify at least one female candidate to enhance the gender diversity among the Board members.

Board Committees (Continued)

Remuneration Committee

The Remuneration Committee has held one meeting during the financial year. The work performed by the Remuneration Committee during the financial year included, but not limited to, discussing and reviewing the following before recommending them to the Board for consideration and approval:

– policy for the remuneration of executive Directors and senior management;

– benchmarking of the remuneration package of executive Directors and senior management with reference to companies with comparable business or size;

– annual salaries increment and remuneration packages for executive Directors and senior management, including the share option scheme and the share purchase scheme for executive Directors and senior management; and

– proposed revision of Directors' fee for the year ending 31 March 2021.

It also reviewed and approved the share options to be granted under the share option scheme and the shares to be awarded under the share purchase scheme subject to the performance conditions.

The emoluments of executive Directors and senior management are based on skills, knowledge and performance, together with reference to the profitability of the Company, and prevailing market conditions. In addition, the Company has established a share option scheme and a share purchase scheme to provide incentives and rewards to eligible participants for their continuous contribution to the Group.

Risk Management and Sustainability Committee

The Risk Management and Sustainability Committee has held two meetings during the financial year to review the Group's risk management and internal control system, and sustainability strategies, policies and improvement activities.

The Risk Management and Sustainability Committee has developed a framework for the management and control of risks in the Group. Risks are being formally identified and recorded in a risk register (the "Risk Register") for key operations. This Risk Register is updated regularly and the major risks are being reviewed from time to time by the Risk Management and Sustainability Committee. The major risks in this Risk Register include:

– economic and operational risks in relation to the novel coronavirus pandemic;

– staff and supplier integrity;

– product design, recall, quality and safety;

– sales and receivable management, and marketing and promotion;

– procurement and supplier management;

– compliance with patents and intellectual property rights requirements;

– cybersecurity and information technology risks;

– physical security and risk of fire;

– human resources, employee compensation and safety;

– compliance with the relevant laws and regulations that have a significant impact on the Group;

– business interruption; and

– US tariffs against China export.

In addition, the Risk Management and Sustainability Committee also reviewed the financial risks of the Group, the details of which are set out in note 24 to the financial statements.

Board Committees (Continued)

Risk Management and Sustainability Committee (Continued)

The Risk Management and Sustainability Committee ensures that any new and emerging risks are promptly identified, evaluated and appropriate actions are taken by the management. This requires the active and frequent participation by the process owner of each function in identifying risks affecting its business and implementing measures to reduce such risks, as well as the active monitoring on the progress of the improvement in internal control procedures.

On the date of this Annual Report, the Risk Management and Sustainability Committee has reviewed and approved the Company's 2020 Sustainability Report, and the relevant disclosures in the Company's Annual Report before recommending them to the Board for consideration and approval.

Data Security Governance Board

The Data Security Governance Board was established with defined terms of reference reporting to the Risk Management and Sustainability Committee. It is chaired by the Group Chief Executive Officer and comprises the Group President, the CMS Chief Executive Officer, the TEL President, the Group Chief Financial Officer, the Company Secretary and Group Chief Compliance Officer, and the Group Chief Information Officer. It is responsible for the decision-making, implementation, enforcement, oversight, compliance and periodic review of the Data Security Policy. During the financial year and up to the date of this Annual Report, the Risk Management and Sustainability Committee has reviewed the meeting minutes of the Data Security Governance Board.

Liability Insurance for the Directors

The Company purchases annually the Directors' and officers' liability insurance for members of the Board to provide protection against claims arising from the lawful discharge of duties by the Directors.

Directors' Training and Professional Development

Every newly appointed Director has been given a comprehensive, formal and tailored induction on appointment.

During the financial year, the Company has organised a one-day training session as part of the continuous professional development conducted by qualified professionals on accounting, taxation and Listing Rules requirements for the Directors and relevant staff to develop and refresh their knowledge and skills. The Directors also received an annual update by qualified professionals on the Listing Rules update arranged by the Company. Materials on the subject of environmental, social and governance and e-learning provided by the Stock Exchange are also notified to the Directors from time to time. In addition, the Directors attended other external seminars or briefings and read relevant materials on regulatory updates.

All Directors have provided to the Company their records of training which they have received during the financial year. The records are maintained by the Company Secretary for annual review by the Audit Committee. The training includes information related to the Company or electronic manufacturing industry, laws, rules and regulations, accounting standards and business management.

A summary of their records of training during the financial year is as follows:

Directors	Attending briefings, trainings, seminars, conference or giving speech	Reading articles, researches, journals and updates
Executive Directors		
Allan WONG Chi Yun *(Chairman)*	✔	✔
PANG King Fai	✔	✔
Andy LEUNG Hon Kwong	✔	✔
Non-executive Director		
William WONG Yee Lai *(appointed on 12 November 2019)*	✔	✔
Independent Non-executive Directors		
William FUNG Kwok Lun	✔	✔
KO Ping Keung	✔	✔
Patrick WANG Shui Chung	✔	✔
WONG Kai Man	✔	✔

External Auditor

The Audit Committee reviews and monitors the external auditor's independence and objectivity. It also meets with the external auditor to consider the nature, scope and results of their audit with senior management. The external audit engagement partner is subject to periodical rotation of not more than seven years.

During the financial year, the fees in respect of audit services and tax services provided by KPMG, the external auditor, are summarised below:

	2020 US$ million	2019 US$ million
Audit services	**0.8**	0.9
Audit related services	**0.1**	0.1
Tax services	**0.8**	0.6

Responsibilities in respect of Financial Statements

The Directors are responsible for overseeing the preparation of the consolidated financial statements for the year ended 31 March 2020 to give a true and fair view of the financial position of the Group as at that date and of its financial performance for the year then ended. In doing so, the Directors have adopted the appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgements and estimates that are prudent and reasonable in preparing the consolidated financial statements on the going concern basis.

The Directors are responsible for ensuring the maintenance of proper accounting records, safeguarding of the assets of the Company and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The management shall provide the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, financial position and prospects in sufficient detail.

The statement by the external auditor of the Company regarding their responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 56 to 60 of this Annual Report.

Company Secretary

The Company Secretary is an employee of the Company, reports to the Chairman and is responsible for providing advice to the Board for ensuring the Board procedures are followed. The Company Secretary has taken no less than 15 hours of relevant professional training and has duly complied with the training requirement under Rule 3.29 of the Listing Rules.

Internal Control

The Directors have the overall responsibility for internal control, including risk management, and set appropriate policies having regard to the objectives of the Group. The Board, through the Audit Committee and the Risk Management and Sustainability Committee, reviewed the overall effectiveness of the Group's system of internal control over financial, operational and compliance issues, risk management process, information systems security and effectiveness of financial reporting and compliance with the Listing Rules during the financial year.

The Group's internal control system aims at safeguarding assets from inappropriate use, maintaining proper accounts and ensuring compliance with regulations. The management is primarily responsible for the design, implementation and maintenance of the internal control system. The system is designed to provide reasonable, but not absolute, assurance against misstatement or loss, and to manage risks of failure in the operation of the Company. The internal audit function monitors the effectiveness of the system and the procedures for monitoring by key operations.

The Group has put in place an organisational structure with formal and clearly defined lines of responsibility and delegation of authority. There are also established procedures for financial planning, capital expenditure, treasury transactions, information and reporting systems, and monitoring the Group's businesses and their performance.

Internal Control (Continued)

Internal Audit Department

The Group's Internal Audit Department has been established for more than 20 years and the Internal Audit Department has direct access to the Audit Committee. The Internal Audit Department reviews the effectiveness of the internal control system. Every three years, the Internal Audit Department carries out a risk assessment on each identified audit area and devises a three-year audit plan according to the nature of business and risk exposures, and the scope of work includes financial and operational reviews. The three-year audit plan is further divided into three annual audit plans. Every year, the Internal Audit Department reviews the upcoming annual audit plan and makes adjustments to it where appropriate. The three-year audit plan and the annual audit plans, with subsequent adjustments where appropriate, are reviewed and agreed by the Audit Committee. In addition to the agreed schedule of work, the Internal Audit Department conducts other review and investigative work as may be required. The Audit Committee receives summary reports from the Internal Audit Department periodically while the results of internal audit reviews and responses to the recommended corrective actions are also reported to the executive Directors. The Internal Audit Department is also responsible for following up the corrective actions to ensure that satisfactory controls are maintained.

Other Control and Management

Code of Conduct

The Company's policy on Code of Conduct is also an important part of the Group's internal control process. The Code of Conduct is a written statement of the core standards of behavior expected by the Group, includes provisions in improper business courtesies, conflicts of interest, handling of confidential and proprietary information and intellectual property, relationships with suppliers, contractors, customers, and business partners, competing with integrity, international trade and interacting with government, environmental protection, occupational health and safety, respect of labour and human rights, and equal opportunities.

Employees are required to strictly follow the Code of Conduct to ensure the Group operates to the highest standards of business behaviour and ethics in our dealings with customers, business partners, shareholders, employees, and the business community. The policy is reinforced and monitored by an annual confirmation of compliance in writing.

The Code of Conduct is set out in the Corporate Governance under Investors section of the Company's website.

Whistleblowing Policy

The Group maintains a Whistleblowing Policy to facilitate the raising of matters of serious concern by employees in confidence without the fear of recrimination. Procedures are established for employees to report complaints and suspected internal malpractices directly to the Group Chief Compliance Officer, who will review the complaints and determine the appropriate mode of investigation and subsequent corrective action. Recommendations on improvements are communicated to the respective department's senior management for implementation. The Group Chief Compliance Officer reports to the chairman of the Audit Committee the nature and status of complaints received on a quarterly basis, and the results of his review of the complaints to the Audit Committee on a biannual basis. No incident of fraud or misconduct was considered to have material effect on the Group's financial statements or overall operations.

Risk Register

The Company maintains the Risk Register to record the major and identifiable risks in the critical functions in the operation of the Company. The Risk Register is being reviewed by the Risk Management and Sustainability Committee on a biannual basis. At management level, department representatives of each key business unit/function maintain a risk register documenting the key risks and the response measures of the relevant risk. To facilitate the review of the Risk Register by the Risk Management and Sustainability Committee, the Internal Audit Department will review the operation of the risk management framework, including the effectiveness of reporting to the highest levels, and the continuing operation of appropriate risk responses.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After having made specific enquiries, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2020.

Continuous Disclosure Policy

The Company has established a Continuous Disclosure Policy to set out the Company's procedures for monitoring developments in our businesses for inside information and communicating such information with our shareholders, analysts, media and other stakeholders in accordance with the inside information disclosure requirement under the Securities and Futures Ordinance and the Listing Rules.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between shareholders and the Board. An annual general meeting shall be held in each year at the time and place determined by the Board.

Procedure for shareholders to convene special general meeting

Under the Company's Bye-laws, in addition to regular annual general meetings, the Board, on the requisition of shareholders of the Company holding not less than one-tenth of the paid-up capital of the Company, may convene a special general meeting to address specific issues of the Company within 21 days from the date of deposit of written notice to the registered office of the Company. The requisition(s) must state the purposes of the meeting, and must be signed by the requisitionist(s).

Procedure for shareholders to propose resolution at annual general meeting

Shareholders holding not less than one-twentieth of the total voting rights of all the shareholders or not less than 100 shareholders may propose any resolutions at the annual general meeting and circulate to other shareholders written statement with respect to the matter to be dealt with at the annual general meeting by sending a written notice of their proposals to the Company Secretary at the Company's principal office at 23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories, Hong Kong.

Procedure for shareholders to propose a person for election as a Director

The procedures for proposing a person for election as Director at a general meeting are set out in the Corporate Governance under Investors section of the Company's website.

Procedure for shareholders to send enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal office at 23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories, Hong Kong.

Changes in Constitutional Documents

There is no change in the Company's constitutional documents during the financial year ended 31 March 2020.

Shareholders Communication Policy

The Company has established a Shareholders Communication Policy to set out the procedures for providing shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company. This is to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.

Shareholders and the investment community may at any time make a request for publicly available Company information by email to investor_relations@vtech.com, by post addressed to the Company's principal office, via the contact form on the Company's website or through the Company's share registrar.

Financial Key Dates

The financial calendar highlighting important dates for shareholders in 2020 is set out in the Investor Relations section of this Annual Report and is also available on the Company's website.

Dividend Policy

The Company has established a Dividend Policy to set out the guidelines for the Board to determine (i) whether dividends are to be declared and paid; and (ii) the level of the dividend to be paid to the shareholders. It is the policy to allow the shareholders to participate in the Company's profits whilst to retain adequate reserves for future growth.

Normally, the Company pays dividends twice a year, which are the interim dividend and final dividend. In determining and recommending the frequency, amount and form of any dividends in any financial year/period, the Board shall consider the following factors:

- the actual and expected financial performance of the Group;
- global economic conditions and other factors that may have an impact on the business or financial performance of the Group;
- the Group's business strategies, current and future operations, liquidity position and capital requirements, including future cash commitments and investment needs to sustain the long-term growth aspect of the business;
- any restrictions on payment of dividends in the Company's Bye-laws or may be imposed by the Group's lenders; and
- any other factors that the Board deems appropriate.

Directors and Senior Management

Biographical Details of Directors

Allan WONG Chi Yun, GBS, MBE, JP, aged 69, Chairman, Executive Director and Group Chief Executive Officer, co-founded the Group in 1976. Dr. WONG holds a Bachelor of Science degree in Electrical Engineering from The University of Hong Kong, a Master of Science degree in Electrical and Computer Engineering from the University of Wisconsin and an Honorary Doctorate of Technology from The Hong Kong Polytechnic University. He is the deputy chairman and an independent non-executive director of The Bank of East Asia, Limited, and an independent non-executive director of China-Hongkong Photo Products Holdings Limited, Li & Fung Limited and MTR Corporation Limited. Dr. WONG is the father of Mr. William WONG Yee Lai, a Non-executive Director.

PANG King Fai, aged 64, Executive Director and President of the Group, holds BSc (Eng) from The University of Hong Kong, MPhil from Imperial College of Science, Technology and Medicine, London and PhD (EE) from Stanford University. He is a Fellow of the Institution of Engineering and Technology. Dr. PANG joined the Group in 2004 as Group Chief Technology Officer and was promoted to the position of President of the Group in 2009. He has over 20 years of experience in design engineering for consumer electronics products.

Andy LEUNG Hon Kwong, aged 61, Executive Director and Chief Executive Officer of Contract Manufacturing Services, holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Newcastle upon Tyne in the United Kingdom and an MBA degree from Oklahoma City University in the United States. He is also responsible for overseeing the China Services Department of the Group. Mr. LEUNG joined the Group in 1988, left the Group in 1990 and re-joined in 1991. He became the Chief Executive Officer of Contract Manufacturing Services in 2002 after serving as General Manager for 9 years. Mr. LEUNG has over 20 years of experience in the electronics and manufacturing industry.

William WONG Yee Lai, aged 40, appointed as a Non-executive Director on 12 November 2019. Mr. WONG attended Southern Methodist University in Computer Science. Mr. WONG is the founder and the CEO of Playality Limited ("Playality"). Playality was a leading Hong Kong online and social gaming company. Mr. WONG started such business in December 2011 and within a year, he (who was also the architect behind Playality's data analytics engine) led the company to much success, with its Grand Poker game being popular in the poker genre on a global social media platform. Previously, Mr. WONG was the founder and the CEO of Ality Limited, a company which developed the internet connected digital photo frame with instant messenger client and web content streaming and its products were sold at well-known retail chain stores. Mr. WONG is the son of Dr. Allan WONG Chi Yun, the Chairman, Executive Director and Group Chief Executive Officer.

William FUNG Kwok Lun, SBS, OBE, JP, aged 71, appointed as an Independent Non-executive Director in 2001. Dr. FUNG holds a Bachelor of Science degree in Engineering from Princeton University and an MBA degree from the Harvard Graduate School of Business. He was awarded the degrees of Doctor of Business Administration, *honoris causa*, by The Hong Kong University of Science and Technology, by The Hong Kong Polytechnic University, by Hong Kong Baptist University and degree of Doctor of Letters, *honoris causa*, by Wawasan Open University of Malaysia. Dr. FUNG is the group chairman of Li & Fung Limited. He is the chairman and a non-executive director of Global Brands Group Holding Limited, a non-executive director of Convenience Retail Asia Limited and an independent non-executive director of Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. Dr. FUNG has held key positions in major trade associations. He is the past chairman of the Hong Kong General Chamber of Commerce (1994-1996), the Hong Kong Committee for the Pacific Economic Cooperation (1993-2002) and the Hong Kong Exporters' Association (1989-1991). He was a Hong Kong Special Administrative Region delegate to the Chinese People's Political Consultative Conference (1998-2003). He was awarded the Silver Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2008.

KO Ping Keung, JP, aged 69, appointed as an Independent Non-executive Director in 2018. Professor KO holds a Bachelor of Science (Honours) degree from The University of Hong Kong, a Doctor of Philosophy degree and a Master of Science degree from the University of California at Berkeley. He is an Emeritus Professor of Electronic & Computer Engineering and the former Dean of the School of Engineering of The Hong Kong University of Science and Technology. He was the Vice Chairman of Electrical Engineering and Computer Science Department of the University of California at Berkeley (1991-1993) and a member of Technical staff, Bell Labs, Holmdel (1982-1984). Professor KO is currently an independent non-executive director of Henderson Investment Limited, Henderson Land Development Company Limited and Q Technology (Group) Company Limited and a director of Beken Corporation, the shares of which are listed on Shanghai Stock Exchange.

Biographical Details of Directors (Continued)

Patrick WANG Shui Chung, SBS, JP, aged 69, appointed as an Independent Non-executive Director in 2001. Dr. WANG obtained his Bachelor of Science and Master of Science degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. Dr. WANG is currently the chairman and chief executive of Johnson Electric Holdings Limited and a non-executive director of Tristate Holdings Limited. He is also a member of the Clinical Governance Committee of the Hong Kong Sanatorium & Hospital.

WONG Kai Man, BBS, JP, aged 69, appointed as an Independent Non-executive Director in 2012. Mr. WONG holds a Bachelor of Science degree in Physics from The University of Hong Kong and an MBA degree from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. WONG is a retired audit partner of PricewaterhouseCoopers with 32 years of professional accounting experience. He was a member of the Growth Enterprise Market Listing Committee of The Stock Exchange of Hong Kong Limited (1999-2003). He was a non-executive director of the Securities and Futures Commission (2009-2015), an independent non-executive director of China Construction Bank Corporation (2007-2013), Shangri-la Asia Limited (2006-2015) and Great Wall Pan Asia Holdings Limited (formerly known as Armada Holdings Limited and SCMP Group Limited) (2007-2016). He was a court member (2010-2017) and council member (2011-2017) of The University of Hong Kong, an honorary associate professor of the School of Business of The University of Hong Kong (2005-2018). He was a court member of the City University of Hong Kong (2016-2018) and a member of the Financial Reporting Council (December 2014-September 2019). He was appointed as a non-executive director of the Financial Reporting Council for one year from 1 October 2019. He is currently an independent non-executive director of SUNeVision Holdings Limited. Mr. WONG also serves on the boards of a number of non-governmental organisations.

Biographical Details of Senior Management

Group

Hillson CHEUNG Hoi, aged 52, President of Telecommunication Products, is responsible for overseeing the Telecommunication Products Branded and ODM business worldwide, and the manufacturing operations of both the Telecommunication Products and Electronic Learning Products. Mr. CHEUNG joined the Group in 2000 as Factory Manager for the Electronic Learning Products and rejoined the Group in 2007. Prior to rejoining the Group, he had held management positions in a number of areas including product development, factory operations and supply chain management in the electronic manufacturing industry. Mr. CHEUNG holds a Bachelor of Engineering degree in Manufacturing Engineering from the City University of Hong Kong and an MBA degree from The Hong Kong University of Science and Technology.

CHU Chorng Yeong, aged 60, Group Chief Technology Officer, is responsible for overseeing the product development of the Electronic Learning Products as well as contributing to the Group in establishing technology strategies and product development directions. Dr. CHU joined the Group in 2009. Prior to joining the Group, he held Senior Vice President positions at SiS (a listed company in Taiwan) and ESS Technology (a listed company in the United States). He had worked in the Silicon Valley for 20 years specialising in integrated circuit and software developments for the consumer electronics industry. Dr. CHU holds a Bachelor of Science degree in Computer Science from Columbia University, MS and PhD in Electrical Engineering from Stanford University.

Shereen TONG Ka Hung, aged 51, Group Chief Financial Officer, is responsible for the Group accounting and tax, treasury and financial as well as information technology and human resources management functions. Ms. TONG joined the Group in 1994 and has held management positions in a number of areas including internal audit and financial control of the Group. Ms. TONG holds an MBA degree from Manchester Business School, UK, a Master of Science degree in Information Systems from The Hong Kong Polytechnic University and a Bachelor of Laws degree from Manchester Metropolitan University, UK. She is an associate member of the Chartered Institute of Bankers, UK, the Chartered Institute of Management Accountants, UK and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Biographical Details of Senior Management

(Continued)

Group (Continued)

CHANG Yu Wai, aged 60, Company Secretary and Group Chief Compliance Officer, joined the Group in 2000 after spending 8 years with one of the leading international accounting firms in Hong Kong. He has over 15 years of experience in professional accounting and auditing. Mr. CHANG holds a Bachelor of Science degree in Mathematics and Management Sciences from the University of Manchester Institute of Science and Technology. Mr. CHANG is a member of the Institute of Chartered Accountants in England and Wales.

International

Gilles SAUTIER, aged 64, International President, joined the Group in 2000 and is responsible for the Electronic Learning Products in the United States, Europe, Australia, Latin America and South Africa. He is also responsible for the support centre in Holland which takes care of finance, logistics management and IT systems for the European sales companies. With over 35 years of experience in marketing, sales and management in the toy industry, he held various positions in Kenner-Parker, Spear's Games, Ideal Toys and Majorette. Mr. SAUTIER holds a Bachelor degree in Law from the University of Paris and an MBA degree from L'ESSEC, a French business school. Since January 2015, he has served as the vice president of the French Federation of Toys and Games.

Andrew Seth KEIMACH, aged 58, President of VTech Electronics North America, L.L.C., joined the Group in 2018. Mr. KEIMACH is responsible for the Electronic Learning Products in the United States. Prior to joining the Group, he was the President of Munchkin, Inc., a leading infant products manufacturers in the United States. Mr. KEIMACH has over 30 years of experience in global consumer products. Mr. KEIMACH holds a Bachelor's degree in Finance from the University of Maryland.

Gordon CHOW, aged 64, President of VTech Technologies Canada Ltd., is responsible for both the Telecommunication Product in North America and Electronic Learning Products in Canada. He established the Canadian operations in 1986. Mr. CHOW is a director of the Jays Care Foundation. He has served as a member of the President's Advancement Council of British Columbia Institute of Technology and a director of the BCIT Foundation. He was also a member of the Royal Roads University – MBA Advisory Board, a director of the Canadian Toy Association and a member of the Board of Governors of Crofton House School in Vancouver. Mr. CHOW holds a Bachelor of Commerce degree from the University of British Columbia and was a member of the Institute of Chartered Accountants of British Columbia.

Alec Louis ANDERSON, aged 52, President of VTech Communications, Inc., is responsible for the Telecommunications Products in the United States. Mr. ANDERSON joined the Group in 2015 as the Vice President of Finance of the Telecommunications Products in the United States. Prior to joining the Group, he held executive management positions for over 25 years, with over 12 years in the consumer products industry. Mr. ANDERSON holds a Bachelor degree in Business from California State University, San Bernardino.

The Directors have pleasure in presenting their report and the audited financial statements of the Group for the year ended 31 March 2020.

Principal Activity

The principal activity of the Group is design, manufacture and distribution of consumer electronic products.

Group Results and Dividends

The results of the Group for the year ended 31 March 2020 are set out in the consolidated statement of profit or loss on page 61.

An interim dividend of US17.0 cents (2019: US17.0 cents) per ordinary share was paid to shareholders on 16 December 2019. The Board has recommended the payment of a final dividend of US36.0 cents (2019: US50.0 cents) per ordinary share in respect of the year ended 31 March 2020, payable on 27 July 2020 to shareholders whose names appear on the register of members of the Company as at the close of business on 16 July 2020 subject to the approval of the shareholders of the Company at the 2020 AGM.

The final dividend will be payable in United States dollars save that those shareholders with a registered address in Hong Kong will receive an equivalent amount in Hong Kong dollars which will be calculated at the rate of exchange as quoted to the Company by The Hongkong and Shanghai Banking Corporation Limited at its middle rate of exchange prevailing on 14 July 2020.

Business Review

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) can be found in the preceding sections of this Annual Report set out on pages 1 to 48 and they form part of this Report of the Directors. Further details relating to the Group's relationships with its key stakeholders and the Group's environmental policies and performance can be found in the Company's 2020 Sustainability Report to be published on the Company's website www.vtech.com.

Group Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 99.

Tangible Assets

Details of the movements in tangible assets of the Group during the financial year are shown in note 7 to the financial statements.

Share Capital and Share Options

Details of the movements in share capital and share options of the Company during the financial year are set out in note 22 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company and the reserves available for distribution to shareholders of the Company during the financial year are set out in the consolidated statement of changes in equity on page 62 and in note 23 to the financial statements respectively.

Donations

During the financial year, the Group made charitable and other donations in an aggregate amount of approximately about US$199,000.

Directors

The Directors who held office during the financial year and up to 18 May 2020 (the date of this Annual Report) were:

Executive Directors
Allan WONG Chi Yun *(Chairman and Group Chief Executive Officer)*
PANG King Fai
Andy LEUNG Hon Kwong

Non-executive Director
William WONG Yee Lai *(appointed on 12 November 2019)*

Independent Non-executive Directors
William FUNG Kwok Lun
KO Ping Keung
Patrick WANG Shui Chung
WONG Kai Man

At the 2020 AGM, Dr. PANG King Fai and Mr. WONG Kai Man shall retire as Directors by rotation in accordance with Bye-law 112 of the Company's Bye-laws while Mr. William WONG Yee Lai shall retire from the Board as the new Director appointed in accordance with the Bye-law 94 of the Company's Bye-laws. All of the above three Directors, being eligible, shall offer themselves for re-election as Directors at the 2020 AGM.

Brief biographical details of the Directors and the senior management are set out on pages 49 to 51 of this Annual Report.

Permitted Indemnity Provision

Pursuant to the Bye-laws of the Company, a permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has purchased the Directors' and Officers' Liability Insurance to provide protection against claims arising from the lawful discharge of duties by the Directors and the directors of the subsidiaries.

Directors' Service Contracts

None of the Directors has a service contract with any company in the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Director's service contract entered into between the Company and Dr. Allan WONG Chi Yun in 1999 has no expiry date, but can be terminated by the giving of two months' prior notice, and is exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules.

Directors' Interests in Contracts

No transactions, arrangements and contracts of significance to which the Company, its subsidiaries, its holding companies, its controlling shareholder, or the subsidiaries of its controlling shareholder was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the financial year.

Directors' Rights to Acquire Shares or Debentures

Save for the share option scheme and the share purchase scheme disclosed below and in note 22 to the financial statements, at no time during or at the end of the financial year was the Company, or any of its subsidiaries or its holding companies, a party to any arrangement which enables the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Incentive Schemes

The Company operates a share option scheme (the "Share Option Scheme") approved on 22 July 2011 and a share purchase scheme (the "Share Purchase Scheme") approved on 30 March 2011 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme and Share Purchase Scheme include Directors, employees and officers of any member of the Group as the Remuneration Committee may determine or approve.

Share Option Scheme

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is 23,145,913 shares. Under the Share Option Scheme, the Directors may, at their discretion, at any time during 10 years from the date of adoption of the Share Option Scheme, invite employees and officers of any member of the Group to subscribe for shares of the Company in accordance with the terms of the Share Option Scheme. The new shares, when issued and fully paid, will rank pari passu among themselves and with the shares currently in issue, pursuant to the Share Option Scheme.

Details of the Share Option Scheme is set out in note 22(b) to the financial statements.

Share Purchase Scheme

The Share Purchase Scheme shall be valid and effective for a term of 20 years from the Adoption Date. The shares to be awarded pursuant to the Share Purchase Scheme (the "Awarded Shares") will be granted to the eligible participants at no consideration subject to the applicable conditions and vesting period as determined by the Remuneration Committee.

On 26 March 2013, the Company adopted an Addendum to the Share Purchase Scheme for the eligible French employees of the Group (the "French Subplan"). The Awarded Shares will be granted to the eligible French employees of the Group pursuant to the Share Purchase Scheme and the French Subplan subject to the defined vesting period. The vesting period applicable under the French Subplan is currently not less than 1 year following the date of the award and a further 1 year sales restriction period as calculated from the date of the Awarded Shares being transferred to the eligible French employees.

On 19 May 2015, the Company further amended and extended the Share Purchase Scheme such that the Company may furnish the trustee of the Share Purchase Scheme with cash to subscribe for new shares under the general mandate of the Company (as approved by the annual general meeting of the Company from time to time) and hold such new shares in trust for the selected participants (not being connected persons of the Company) under the Share Purchase Scheme. The new shares, when issued and fully paid, will rank pari passu among themselves and with the shares currently in issue, pursuant to the Share Purchase Scheme.

During the year ended 31 March 2020, 141,000 shares (2019: 334,100 shares) were purchased on the Stock Exchange pursuant to the Share Purchase Scheme, and 207,000 new shares (2019: 200,000 shares) were issued under the general mandate of the Company pursuant to the Share Purchase Scheme. The total amount paid to purchase such shares during the financial year was approximately US$1.2 million (2019: US$3.4 million).

Details of the Share Purchase Scheme and the French Subplan are set out in note 22(c) to the financial statements.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 March 2020, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules as adopted by the Company, were as follows:

	Number of ordinary shares					
Name of Director	**Personal interest**	**Family interest**	**Other interest**	**Equity derivatives**	**Total**	**Approximate percentage of shareholding** *(note 8)*
Allan WONG Chi Yun	9,654,393	3,968,683	74,101,153 *(note 1)*	–	87,724,229	34.84%
PANG King Fai	267,300	–	–	60,000 *(note 2)*	327,300	0.13%
Andy LEUNG Hon Kwong	391,000	–	–	100,000 *(note 3)*	491,000	0.20%
William WONG Yee Lai	–	–	74,101,153 *(notes 1&4)*	–	74,101,153	29.43%
William FUNG Kwok Lun	449,430	5,000 *(note 5)*	592,200 *(note 6)*	–	1,046,630	0.42%
Patrick WANG Shui Chung	162,000	–	–	–	162,000	0.06%

Notes:

(1) The shares were beneficially owned as to 1,416,325 shares by Honorex Limited ("Honorex"), as to 65,496,225 shares by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 shares by Twin Success Pacific Limited ("Twin Success"). Conquer Rex was wholly owned by Honorex. Each of Conquer Rex, Honorex and Twin Success was wholly owned by Surplus Assets Limited ("Surplus Assets"). Surplus Assets was wholly owned by Credit Suisse Trust Limited ("Credit Suisse") as the trustee of The Allan Wong 2011 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, is the founder. Surplus Assets was therefore deemed to have an aggregate indirect interest in 74,101,153 shares and Honorex was also deemed to have an indirect interest in the 65,496,225 shares. Surplus Assets was wholly owned by Credit Suisse which was deemed to be interested in such shares by virtue of the SFO.

(2) An aggregate of 60,000 Awarded Shares were granted to Dr. PANG King Fai pursuant to the Share Purchase Scheme during the financial year. The Awarded Shares were purchased on the Stock Exchange by the trustee of the Share Purchase Scheme and would be vested on 19 May 2020 subject to the achievement of certain performance conditions for the year ended 31 March 2020.

(3) An aggregate of 100,000 Awarded Shares were granted to Mr. Andy LEUNG Hon Kwong pursuant to the Share Purchase Scheme during the financial year. The Awarded Shares were purchased on the Stock Exchange by the trustee of the Share Purchase Scheme and would be vested on 19 May 2020 subject to the achievement of certain performance conditions for the year ended 31 March 2020.

(4) Mr. William WONG Yee Lai was deemed to be interested in 74,101,153 shares of the Company under the SFO by virtue of him being one of the discretionary beneficiaries of The Allan Wong 2011 Trust, which is a discretionary trust of which Dr. Allan WONG Chi Yun is the founder.

(5) The shares were held by Pacific Fame Worldwide Limited which was beneficially owned by the spouse of Dr. William FUNG Kwok Lun.

(6) The shares were held by Golden Step Limited which was beneficially owned by Dr. William FUNG Kwok Lun.

(7) All the interests stated above represented long positions.

(8) The approximate percentage of shareholding is calculated based on 251,779,133 shares of the Company in issue as at 31 March 2020.

Save as disclosed above, as at 31 March 2020, none of the Directors and chief executives of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholdings

As at 31 March 2020, other than the interests of the Directors and chief executives of the Company as disclosed above, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which fell to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding *(note 6)*
Long Position			
Credit Suisse Trust Limited	Interest of controlled corporation *(note 1)*	74,101,153	29.43%
Surplus Assets Limited	Interest of controlled corporation *(note 1)*	74,101,153	29.43%
Honorex Limited	Interest of controlled corporation *(note 1)*	65,496,225	26.01%
	Beneficial owner *(note 1)*	1,416,325	0.56%
Conquer Rex Limited	Beneficial owner *(note 1)*	65,496,225	26.01%
JPMorgan Chase & Co.	Interest of controlled corporation *(note 2)*	2,077,362	0.83%
	Investment Manager *(note 2)*	1,552,800	0.62%
	Person having a security interest in shares *(note 2)*	74,628	0.03%
	Trustee *(note 2)*	8,300	0%
	Approved lending agent *(note 2)*	16,380,689	6.51%
The Capital Group Companies, Inc.	Interest of controlled corporation *(note 3)*	19,892,154	7.90%
BlackRock, Inc.	Interest of controlled corporation *(note 4)*	17,669,461	7.02%
Sun Life Financial Inc.	Interest of controlled corporation *(note 5)*	14,569,976	5.79%
Sun Life of Canada (U.S.) Financial Services Holdings, Inc.	Interest of controlled corporation *(note 5)*	14,569,976	5.79%
Massachusetts Financial Services Company	Investment Manager *(note 5)*	10,249,914	4.07%
	Interest of controlled corporation *(note 5)*	4,320,062	1.72%
Short Position			
JPMorgan Chase & Co.	Interest of controlled corporation *(note 2)*	1,662,820	0.66%
BlackRock, Inc.	Interest of controlled corporation *(note 4)*	98,800	0.04%

Notes:

(1) Please refer to note (1) disclosed under the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report.

(2) The capacities of JPMorgan Chase & Co. in holding 20,093,779 shares (long position) were as to (i) 2,077,362 shares (long position) as interest of controlled corporation, (ii) 1,552,800 shares (long position) as investment manager, (iii) 74,628 shares (long position) as person having a security interest in shares, (iv) 8,300 shares (long position) as trustee, and (v) 16,380,689 (long position) as approved lending agent. The long position includes derivative interests of 102,300 shares derived from unlisted and cash settled derivatives. 1,622,820 shares (short position) were as to the interest of controlled corporation. The short position includes derivative interests of 26,400 shares derived from unlisted and physically settled derivatives, and 1,473,920 shares derived from unlisted and cash settled derivatives. The interest of JPMorgan Chase & Co. was attributable on account through a number of entitles directly or indirectly controlled by JPMorgan Chase & Co. respectively.

(3) The long position includes derivative interests of 923,235 shares derived from unlisted and physically settled derivatives.

(4) The long position includes derivative interests of 174,900 shares derived from unlisted and cash settled derivatives. The short position includes derivative interests of 89,100 shares derived from unlisted and cash settled derivatives.

(5) The capacities of Massachusetts Financial Services Company ("MFS") in holding 14,569,976 shares (long position) were as to (i) 10,249,914 shares as investment manager and (ii) 4,320,062 shares as interest of controlled corporation. MFS is a subsidiary of Sun Life of Canada (U.S.) Financial Services Holdings, Inc. ("SLC"), which is a subsidiary of Sun Life Financial Inc. ("SLF"). Accordingly, SLC and SLF were deemed to be interested in the interests of MFS as each of its direct and indirect subsidiaries respectively.

(6) The approximate percentage of shareholding is calculated based on 251,779,133 shares of the Company in issue as at 31 March 2020.

Save as disclosed above, as at 31 March 2020, the Company had not been notified by any person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which fell to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Public Float

Based on the information publicly available and within the knowledge of the Directors, the Company has maintained at least 25% of the total issued share capital of the Company to be held by the public at all times during the year ended 31 March 2020 and up to the date of this Annual Report.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 March 2020.

Securities Purchase Arrangements

At the 2019 AGM, shareholders renewed the approval of a general mandate authorising the Directors to effect repurchases of the Company's own shares up to a limit of 10% of the shares in issue as at that date.

Purchase, Sale or Redemption of Listed Shares

The Company and its subsidiaries have not redeemed any of its shares during the financial year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the financial year, except that the trustee of the Share Purchase Scheme, pursuant to the rules and trust deed of the Share Purchase Scheme, purchased on the Stock Exchange a total of 141,000 Company's shares at a consideration of approximately US$1.2 million.

Major Customers and Suppliers

For the year ended 31 March 2020, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total value of purchases. The Group's largest customer accounted for approximately 11.6% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 38.8% of the Group's revenue during the financial year.

Dr. Allan WONG Chi Yun has an interest in 1,288 shares (representing less than 0.001%) of the total issued shares) in the parent company of one of the Group's five largest customers.

Mr. Andy LEUNG Hon Kwong has an interest in 1,000 shares (representing less than 0.001% of the total issued shares) in the parent company of a company which is one of the Group's five largest customers and also one of the Group's five largest suppliers.

Dr. William FUNG Kwok Lun has an interest in 22,000 shares (representing less than 0.001%) of the total issued shares) in the parent company of the Group's largest customer, and 33,500 shares (representing less than 0.01% of the total issued shares) in one of the Group's five largest customers. The spouse of Dr. William FUNG Kwok Lun holds 3 months Callable Fixed Coupon Note (which will be mature on 1 July 2020) of the parent company of one of the Group's five largest customers in the amount of US$400,000.

Save as disclosed above, as far as the Directors are aware, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued shares) had an interest in the customers and the suppliers noted above.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Bye-laws of the Company and there are no statutory restrictions against such rights under the laws of Bermuda in which the Company is incorporated.

Auditor

The Group's consolidated financial statements have been audited by KPMG, who shall retire and, being eligible, offer itself for re-appointment at the 2020 AGM.

On behalf of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 18 May 2020

Independent Auditor's Report

To the Shareholders of VTech Holdings Limited
(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of VTech Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 61 to 98, which comprise the consolidated statement of financial position as at 31 March 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessing the valuation of stocks

Refer to note 15 to the consolidated financial statements and the accounting policies on page 70.

The Key Audit Matter	How the matter was addressed in our audit
Stocks held at the year end comprise a wide range of products including electronic learning products and telecommunication products. Sales of stocks in the electronic products industry can be volatile due to keen competition in the market and consumer demand frequently changing. The Group typically sells or disposes of slow moving stocks at a markdown from the original price to maintain the strength of the brand and make room for new products on the shelves of retailers. Accordingly, the actual future selling prices of some items of stocks may fall below their cost. Management assesses the net realisable value of slow moving and excess stocks with reference to the stock ageing report, anticipated future selling prices and/or sales forecasts. Stocks are written down to their net realisable value where this falls below their cost. We identified the valuation of stocks as a key audit matter because determining appropriate stock write-downs and provisions involves predicting the excess quantities of stocks which will remain unused or unsold after the end of the reporting period and the markdowns necessary to sell such slow moving stocks, which can be inherently uncertain and requires the exercise of significant management judgement.	Our audit procedures to assess the valuation of stocks included the following: • evaluating the Group's stock write-down and provision policy with reference to the requirements of the prevailing accounting standards; • assessing whether the stock write-downs and provisions made at the reporting date were consistent with the Group's stock write-down and provision policy by recalculating the stock write-downs and provisions based on the relevant parameters in the policy; • assessing the historical accuracy of management's judgements in making write-downs and provisions for stocks by examining the utilisation or release of provisions recorded as at 31 March 2019 and new provisions made in the current year in respect of stocks on hand as at 31 March 2019; • assessing, on a sample basis, whether items in the stock ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation; • enquiring of the director of each division and senior members of the sales team about any expected changes in plans for markdowns or disposals of slow moving stocks and comparing their representations with actual production and sales transactions subsequent to the reporting date; and • evaluating, on a sample basis, whether stocks were stated at the lower of cost and net realisable value at the reporting date by comparing the sales prices of stocks subsequent to the reporting date with their carrying values as at 31 March 2020.

Assessing potential impairment of goodwill

Refer to note 11 to the consolidated financial statements and the accounting policies on page 67.

The Key Audit Matter	How the matter was addressed in our audit
Management performs impairment assessments of the goodwill which arose from business combinations. In performing such impairment assessments, management compares the carrying value of each of the separately identifiable cash-generating units ("CGUs") to which goodwill had been allocated with their respective value in use based on discounted cash flow forecasts to determine if any impairment loss should be recognised. The preparation of discounted cash flow forecasts for the purpose of assessing potential impairment of goodwill involves estimating future cash flows, growth rates and discount rates which can be inherently uncertain. We identified the assessment of potential impairment of goodwill as a key audit matter because the year end goodwill impairment assessments performed by management contain certain judgemental assumptions which could be subject to management bias.	Our audit procedures to assess potential impairment of goodwill included the following: • assessing the management's identification of CGUs, the allocation of assets to each CGU and the methodology adopted by management in its impairment assessments of goodwill with reference to the requirements of the prevailing accounting standards; • evaluating the assumptions adopted in the preparation of the cash flow forecasts for the purpose of the impairment assessments of goodwill, including projected future growth rates for income and expenses, with reference to our understanding of the business, historical trends and available industry information and available market data; • assessing whether the discount rates applied in the discounted cash flow forecasts prepared for the purpose of assessing potential impairment of goodwill were within a reasonable range by comparison with data for companies operating in the same industries; • comparing the cashflow forecasts prepared at the end of last year for the purpose of impairment assessments with the actual performance of the businesses for the current year to assess how accurate the cash flow forecasts were and making enquiries of management as to the reasons for any significant variations identified; and • assessing the impact of changes in the key assumptions, including projected profitability and the discount rates, adopted in the discounted cash flow forecasts on the conclusions reached in the impairment assessments and assessing whether there were any indicators of management bias in the selection of these assumptions.

Assessing the loss allowance for trade debtors	
Refer to notes 16 and 24(a) to the consolidated financial statements and the accounting policies on pages 68 to 70.	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 March 2020, the Group's gross trade debtors totalled US$230.0 million, against which loss allowances of US$8.5 million were recorded. The Group's loss allowances are based on management's estimate of the lifetime expected credit losses, which is estimated by taking into account ageing of trade debtors and credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. Such assessment involves a significant degree of management judgement. We identified the loss allowance for trade debtors as a key audit matter because determining the level of loss allowance requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for trade debtors included the following: • obtaining an understanding of and assessing the design and implementation of management's key internal controls relating to credit control, debt collection and estimation of expected credit losses; • assessing, on a sample basis, whether items in the trade debtors' ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation; • obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by the management, including historical default data and management's estimated loss rates; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • reperforming the calculation of the loss allowance as at 31 March 2020 based on the Group's credit loss allowance policies; and • inspecting, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade debtor balances as at 31 March 2020 with bank statements and relevant remittance documentation.

Information Other than the Consolidated Financial Statements and Auditor's Report thereon

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Sze Kit Roy.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 May 2020

Consolidated Financial Statements

Consolidated Statement of Profit or Loss

For the year ended 31 March 2020

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2020

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

Consolidated Statement of Financial Position

As at 31 March 2020

	Note	2020 US$ million	2019 *(note)* US$ million
Non-current assets			
Tangible assets	7	**76.0**	84.3
Deposit for acquisition of tangible assets	7	**1.4**	–
Right-of-use assets	8	**154.8**	–
Leasehold land payments	9	**–**	4.5
Intangible assets	10	**17.7**	18.6
Goodwill	11	**36.1**	36.1
Interest in an associate	12	**3.0**	–
Investments	13	**8.3**	5.4
Net assets on defined benefit scheme	21(b)	**–**	2.6
Deferred tax assets	14(b)	**8.3**	5.8
		305.6	157.3
Current assets			
Stocks	15	**372.6**	369.9
Debtors, deposits and prepayments	16	**272.1**	319.1
Taxation recoverable	14(a)	**2.6**	3.6
Deposits and cash	17	**242.5**	237.0
		889.8	929.6
Current liabilities			
Creditors and accruals	18	**(390.8)**	(443.9)
Provisions for defective goods returns and other liabilities	19	**(24.2)**	(24.9)
Lease liabilities	20	**(17.9)**	–
Taxation payable	14(a)	**(9.0)**	(7.7)
		(441.9)	(476.5)
Net current assets		**447.9**	453.1
Total assets less current liabilities		**753.5**	610.4
Non-current liabilities			
Net obligations on defined benefit scheme	21(b)	**(1.8)**	–
Deferred tax liabilities	14(b)	**(2.9)**	(3.4)
Lease liabilities	20	**(147.3)**	–
		(152.0)	(3.4)
Net assets		**601.5**	607.0
Capital and reserves			
Share capital	22(a)	**12.6**	12.6
Reserves		**588.9**	594.4
Total equity		**601.5**	607.0

Approved and authorised for issue by the Board of Directors on 18 May 2020.

Allan WONG Chi Yun
Director

PANG King Fai
Director

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

The notes and principal accounting policies on pages 63 to 98 form part of these financial statements. Details of dividends payable to shareholders of the Company attributable to the profit for the year are set out in note 5.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2020

	Note	Attributable to shareholders of the Company						
		Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Exchange reserve US$ million	Hedging reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 2018		12.6	151.8	(0.2)	(1.1)	(4.0)	487.5	646.6
Changes in equity for the year ended 31 March 2019								
Comprehensive income								
Profit for the year		–	–	–	–	–	171.3	171.3
Other comprehensive income								
Fair value gains on hedging, net of deferred tax		–	–	–	–	5.9	–	5.9
Realisation of hedging reserve, net of deferred tax		–	–	–	–	3.5	–	3.5
Exchange translation differences		–	–	–	(20.4)	–	–	(20.4)
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax		–	–	–	–	–	0.2	0.2
Other comprehensive income for the year		–	–	–	(20.4)	9.4	0.2	(10.8)
Total comprehensive income for the year		–	–	–	(20.4)	9.4	171.5	160.5
Final dividend in respect of the previous year		–	–	–	–	–	(158.5)	(158.5)
Interim dividend in respect of the current year	5	–	–	–	–	–	(42.8)	(42.8)
Shares issued under Share Purchase Scheme	23(b)	–	2.5	(2.5)	–	–	–	–
Shares purchased for Share Purchase Scheme	22(c)&23(b)	–	–	(3.4)	–	–	–	(3.4)
Vesting of shares of Share Purchase Scheme	22(c)&23(b)	–	–	4.6	–	–	–	4.6
At 31 March 2019 and 1 April 2019 *(note)*		12.6	154.3	(1.5)	(21.5)	5.4	457.7	607.0
Effect of adoption of IFRS 16	B	–	–	–	–	–	(11.2)	(11.2)
Adjusted balance at 1 April 2019		12.6	154.3	(1.5)	(21.5)	5.4	446.5	595.8
Changes in equity for the year ended 31 March 2020								
Comprehensive income								
Profit for the year		–	–	–	–	–	190.7	190.7
Other comprehensive income								
Fair value gains on hedging, net of deferred tax		–	–	–	–	3.3	–	3.3
Realisation of hedging reserve, net of deferred tax		–	–	–	–	(5.4)	–	(5.4)
Exchange translation differences		–	–	–	(13.2)	–	–	(13.2)
Effect of remeasurement of net assets/obligations on defined benefit scheme, net of deferred tax		–	–	–	–	–	(3.7)	(3.7)
Other comprehensive income for the year		–	–	–	(13.2)	(2.1)	(3.7)	(19.0)
Total comprehensive income for the year		–	–	–	(13.2)	(2.1)	187.0	171.7
Final dividend in respect of the previous year	5	–	–	–	–	–	(125.9)	(125.9)
Interim dividend in respect of the current year	5	–	–	–	–	–	(42.8)	(42.8)
Shares issued under Share Purchase Scheme	23(b)	–	1.9	(1.9)	–	–	–	–
Shares purchased for Share Purchase Scheme	22(c)&23(b)	–	–	(1.2)	–	–	–	(1.2)
Vesting of shares of Share Purchase Scheme	22(c)&23(b)	–	–	3.9	–	–	–	3.9
At 31 March 2020		**12.6**	**156.2**	**(0.7)**	**(34.7)**	**3.3**	**464.8**	**601.5**

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note B under principal accounting policies.

The notes and principal accounting policies on pages 63 to 98 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2020

	Note	2020 US$ million	2019 (note) US$ million
Operating activities			
Operating profit		**219.7**	193.2
Depreciation of tangible assets	2	**37.8**	36.9
Depreciation of right-of-use assets	2	**18.5**	–
Amortisation of leasehold land payments	2	**–**	0.1
Amortisation of intangible assets	2	**0.9**	1.0
Fair value gain on investments measured at fair value through profit or loss	2	**(5.9)**	–
Loss/(Gain) on disposal of tangible assets and non-current asset held for sale	2	**0.1**	(5.9)
Share-based payment expenses	2	**3.9**	4.6
Increase in stocks		**(2.7)**	(17.4)
Decrease in debtors, deposits and prepayments		**44.7**	30.9
(Decrease)/Increase in creditors and accruals		**(53.1)**	33.3
Decrease in provisions for defective goods returns and other liabilities		**(0.7)**	(3.5)
Increase in net obligations/ Decrease in net assets on defined benefit scheme		**0.3**	0.2
Cash generated from operations		**263.5**	273.4
Interest paid		**(1.7)**	(0.9)
Interest on lease liabilities		**(5.7)**	–
Taxes paid		**(19.1)**	(23.2)
Net cash generated from operating activities		**237.0**	249.3
Investing activities			
Purchase of tangible assets		**(33.2)**	(37.3)
Deposit for acquisition of tangible assets		**(1.4)**	–
Proceeds from disposal of tangible assets and non-current asset held for sale		**0.1**	9.2
Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)	26	**–**	(17.8)
Net cash used in investing activities		**(34.5)**	(45.9)
Financing activities			
Capital element of lease rentals paid	20(b)	**(17.1)**	–
Payment for shares acquired for Share Purchase Scheme	22(c)	**(1.2)**	(3.4)
Dividends paid	5	**(168.7)**	(201.3)
Net cash used in financing activities		**(187.0)**	(204.7)
Effect of exchange rate changes		**(10.0)**	(16.1)
Increase/(Decrease) in cash and cash equivalents		**5.5**	(17.4)
Cash and cash equivalents at 1 April		**237.0**	254.4
Cash and cash equivalents at 31 March	17	**242.5**	237.0

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note B under principal accounting policies.

The notes and principal accounting policies on pages 63 to 98 form part of these financial statements.

Principal Accounting Policies

A Principal Activities and Organisation

The Group's principal activities and operating segments are set out in note 1 to the financial statements.

The Company was incorporated in Bermuda. In view of the international nature of the Group's operations, the financial statements are presented in United States dollars.

B Statement of Compliance

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

These financial statements comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

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

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

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

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

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

Principal Accounting Policies (Continued)

B Statement of Compliance (Continued)

IFRS 16, Leases (Continued)

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

(i) New definition of a lease

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

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

(ii) Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to land and buildings as disclosed in note 25(c). For an explanation of how the Group applies lessee accounting, see note (M).

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

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

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

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

(c) The Group excluded the initial direct costs from the right-of-use assets at the date of initial application of IFRS 16; and

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

The following table reconciles the operating lease commitments as disclosed in note 25(c) as at 31 March 2019 to the opening balance for lease liabilities recognised as at 1 April 2019:

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

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

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

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

Principal Accounting Policies (Continued)

B Statement of Compliance (Continued)

IFRS 16, Leases (Continued)

(ii) Lessee accounting and transitional impact (Continued)

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

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

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

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

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

C Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 March 2020 comprise the Company and its subsidiaries and a structured entity (together referred to as the "Group") and the Group's interest in an associate.

These financial statements are prepared on the historical cost basis as modified by the revaluation of derivative financial instruments and investments at their fair value as explained in the accounting policies set out below.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 31.

D Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and a structured entity and the Group's interest in an associate. All significant inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

Subsidiaries (including structured entities) are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary and a structured entity is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment. The assets and liabilities of the structured entity, VTech Share Purchase Scheme Trust, are included in the Group's consolidated statement of financial position and the shares held by the VTech Share Purchase Scheme Trust are presented as a deduction from equity as Shares held for Share Purchase Scheme.

Principal Accounting Policies (Continued)

D Basis of Consolidation (Continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

Investments in subsidiaries in the Company's statement of financial position are stated at cost less impairment losses (see note (N)(iii)). The financial results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

An associate is an entity in which the Group or Company has significant influence but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes (H) and (N)(iii)). Any acquisition date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the individual company's statement of financial position, investments in associates are stated at cost less impairment losses (see note (N)(iii)).

E Revenue Recognition

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from the sale of goods is recognised when the customer takes possession of and accepts the products. Revenue is stated net of sales taxes, returns, rebates and discounts.

(ii) Interest income is recognised as it accrues using the effective interest method.

(iii) Dividend income is recognised when the Group's right to receive payment is established.

F Research and Development

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible, the attributable expenditure is separately identifiable and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads which are directly attributable to development activities. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note (N)(iii)). Development expenditure that does not meet the above criteria is recognised as an expense in the period in which it is incurred.

Amortisation is calculated to write off capitalised development costs on a straight-line basis over their estimated useful lives, commencing from the date when the products are put into commercial production.

Principal Accounting Policies (Continued)

G Translation of Foreign Currencies

Foreign currency transactions during the year are translated into United States dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transactions dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into United States dollars at the closing foreign exchange rates at the end of the reporting period.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

H Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note (N)(iii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

I Business Combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

J Tangible Assets and Depreciation

Tangible assets are stated at cost less accumulated depreciation and impairment losses (see note (N)(iii)).

Depreciation is calculated to write off the cost of assets on a straight-line basis over their estimated useful lives which are as follows:

Leasehold land	Over the unexpired term of lease
Medium-term and short-term leasehold buildings and leasehold improvements	10 to 50 years or lease term, if shorter
Moulds	1 year
Machinery and equipment	3 to 5 years
Computers, motor vehicles, furniture and fixtures	3 to 7 years

Where parts of a tangible asset have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of tangible assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in profit or loss on the date of retirement or disposal.

K Construction in Progress

Construction in progress represents land and buildings under development and is stated at cost less impairment losses (see note (N)(iii)). Cost comprises the construction costs of buildings and costs paid to acquire land use rights.

Building construction costs are transferred to leasehold buildings when the assets are completed and put into operational use and depreciation will be provided at the appropriate rates in accordance with the depreciation policies (see note (J)).

No depreciation or amortisation is provided in respect of construction in progress.

L Intangible Assets

Intangible assets acquired in a business combination is recognised at fair value at the acquisition date. Intangible assets with finite useful life is stated at cost less accumulated amortisation and impairment losses (see note (N)(iii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Brand	30 years
Technology	5 years

Both the period and method of amortisation are reviewed annually.

Principal Accounting Policies (Continued)

M Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) Policy applicable from 1 April 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note (N)(iii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Policy applicable before 1 April 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Tangible assets acquired by way of finance lease was stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease less accumulated depreciation and impairment losses (as set out in note (N)(iii)). Finance charges were recognised in profit or loss in proportion of the capital balances outstanding.

Payments made under operating leases (net of any incentives received from the lessor) were recognised in profit or loss on a straight-line basis over the period of the lease.

Leasehold land payments were up-front payments to acquire long-term leasehold interests in land. These payments were stated at cost and were amortised on a straight-line basis over the respective period of the leases.

When an operating lease was terminated before the lease period had expired, any payment required to be made to the lessor by way of penalty was recognised as an expense in the period in which the termination took place.

N Credit Losses and Impairment of Assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECLs") on the financial assets measured at amortised cost (including deposits and cash, debtors and deposits).

Financial assets measured at fair value, including equity securities measured at fair value through profit or loss ("FVPL") and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade debtors are always measured at an amount equal to lifetime ECLs. ECLs on trade debtors are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

Principal Accounting Policies (Continued)

N Credit Losses and Impairment of Assets (Continued)

(i) Credit losses from financial instruments (Continued)

Measurement of ECLs (Continued)

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within trade and other creditors at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated). Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "creditors and accruals" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note (N)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- tangible assets;
- right-of-use assets;
- construction in progress;
- intangible assets;
- goodwill;
- investment in an associate; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Principal Accounting Policies (Continued)

N Credit Losses and Impairment of Assets (Continued)

(iii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised as an expense in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim Financial Reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

O Other Investments

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associate, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 24(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note (E)).

– Fair value through other comprehensive income ("FVOCI") – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECLs, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– Fair value through profit or loss ("FVPL"), if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note (E).

P Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average or the first-in-first-out basis, and comprises materials, direct labour and an appropriate share of production overheads incurred in bringing the stocks to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When stocks are sold, the carrying amount of those stocks is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of stocks to net realisable value and all losses of stocks are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of stocks is recognised as a reduction in the amount of stocks recognised as an expense in the period in which the reversal occurs.

Principal Accounting Policies (Continued)

Q Trade and Other Debtors

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note (Y)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note (N)(i)).

R Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note (N)(i).

S Trade and Other Creditors

Trade and other creditors are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note (N)(ii), trade and other creditors are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

T Provisions and Contingent Liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

U Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities.

V Employee Benefits

The Group operates a number of defined contribution retirement schemes throughout the world, including Hong Kong, and a defined benefit retirement scheme in Hong Kong. The assets of all schemes are held separately from those of the Company and its subsidiaries.

(i) Defined contribution schemes

Contributions to the defined contribution schemes are at various funding rates that are in accordance with the local practice and regulations. Contributions relating to the defined contribution schemes are charged to profit or loss as incurred.

(ii) Defined benefit scheme

The Group's net obligation in respect of defined benefit retirement scheme is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme.

Principal Accounting Policies (Continued)

V Employee Benefits (Continued)

(ii) Defined benefit scheme (Continued)

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and are allocated by function as part of "cost of sales", "selling and distribution costs" or "administrative and other operating expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a scheme are changed, or when a scheme is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the scheme amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement scheme are recognised in other comprehensive income and reflected immediately in revenue reserve. Remeasurements comprise actuarial gains and losses, the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

(iii) Equity and equity related compensation benefits

For share options granted under the 2011 Scheme and shares of the Company granted under the Shares Purchase Scheme ("Awarded Shares"), the fair value of share options and Awarded Shares granted to employees is recognised as an employee cost with a corresponding increase in the capital reserve and Shares held for Share Purchase Scheme, respectively, within equity. The fair value of share options is measured at grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options or the Awarded Shares, the total estimated fair value of the share options and Awarded Shares are spread over the vesting period, taking into account the probability that the options and Awarded Shares will vest.

During the vesting period, the number of share options and Awarded Shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve and Shares held for Share Purchase Scheme, respectively. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options and Awarded Shares that vest (with a corresponding adjustment to the capital reserve and Shares held for Share Purchase Scheme) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount in respect of share options is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to revenue reserve).

For those Awarded Shares which are amortised over the vesting periods, the Group revises its estimates of the number of Awarded Shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to employee share-based compensation expense in the current year, with a corresponding adjustment to Shares held for Share Purchase Scheme.

W Shares held for Share Purchase Scheme

Where the VTech shares are acquired by VTech Share Purchase Scheme Trust from the market, the consideration of shares acquired from the market (including any directly attributable incremental costs), is presented as Shares held for Share Purchase Scheme and deducted from total equity.

Upon vesting, the related costs of the vested Awarded Shares purchased from the market and shares acquired from reinvesting dividends received on the Awarded Shares ("dividend shares") are credited to Shares held for Share Purchase Scheme, with a corresponding increase in share-based payment expenses for Awarded Shares, and decrease in revenue reserve for dividend shares.

For vesting of forfeited or unallocated shares regranted, the related costs of the forfeited or unallocated shares regranted are credited to Shares held for Share Purchase Scheme, and the related fair value of the shares regranted are debited to capital reserve. The difference between the cost and the fair value of the shares regranted is credited to share premium if the fair value is higher than the costs, or debited against revenue reserve if the fair value is less than the cost.

X Derivative Financial Instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates (cash flow hedges).

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset such as inventory, the associated gain or loss is reclassified from equity to be included in the initial cost of the non-financial asset.

For all other hedged forecast transactions, the amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affects profit or loss (such as when a forecast sale occurs).

Principal Accounting Policies (Continued)

X Derivative Financial Instruments (Continued)

Cash flow hedges (Continued)

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then the hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

Y Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note (E)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note (N)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note (Q)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note (E)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note (Q)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note (E)).

Z Dividends

Dividends proposed or declared after the end of the reporting period are not recognised as a liability at the end of the reporting period.

AA Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources and performance assessment.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

AB Related Parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

- (a) has control or joint control over the Group;
- (b) has significant influence over the Group; or
- (c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions apply:

- (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (c) Both entities are joint ventures of the same third party.
- (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (f) The entity is controlled or jointly controlled by a person identified in (i).
- (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Revenue and Segment Information

(a) Revenue

The principal activity of the Group is design, manufacture and distribution of consumer electronic products. All revenue of the Group are from contracts with customers within the scope of IFRS 15 and recognised at a point in time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products and regions is as follows:

Year ended 31 March 2020	**North America US$ million**	**Europe US$ million**	**Asia Pacific US$ million**	**Other Regions US$ million**	**Total US$ million**
Electronic Learning Products	**493.7**	**333.3**	**83.2**	**12.1**	**922.3**
Telecommunication Products	**243.9**	**112.5**	**27.9**	**16.6**	**400.9**
Contract Manufacturing Services	**252.0**	**440.5**	**148.3**	**1.5**	**842.3**
Total	**989.6**	**886.3**	**259.4**	**30.2**	**2,165.5**

Year ended 31 March 2019	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions US$ million	Total US$ million
Electronic Learning Products	476.6	343.5	81.2	13.0	914.3
Telecommunication Products	263.4	119.7	35.4	21.7	440.2
Contract Manufacturing Services	254.5	419.7	132.0	1.2	807.4
Total	994.5	882.9	248.6	35.9	2,161.9

The Group's customer base is diversified and include two (2019: one) customers with whom transaction have exceeded 10% of the Group's revenue. The revenue from these two customers accounted for approximately 12% and 10% of the Group's revenue for the year ended 31 March 2020 respectively. For the year ended 31 March 2019, approximately 12% of the Group's revenue is derived from a single external customer. Such revenue is attributable to the North America segment.

Details of concentration of credit risk of the Group are set out in note 24(a).

(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.

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

(i) Segment revenues and results

Revenue is allocated to the reportable segment based on the location of external customers. Expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those geographical locations or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is operating profit.

In addition to receiving segment information concerning operating profit, management is provided with segment information concerning revenue and depreciation and amortisation.

(ii) Segment assets and liabilities

Segment assets include all non-current assets and current assets with the exception of deferred tax assets, taxation recoverable and other corporate assets including intangible assets, goodwill, investments and interest in an associate.

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

1 Revenue and Segment Information (Continued)

(b) Segment Information (Continued)

(ii) Segment assets and liabilities (Continued)

Year ended 31 March 2020	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions US$ million	Total US$ million
Reportable segment revenue	**989.6**	**886.3**	**259.4**	**30.2**	**2,165.5**
Reportable segment profit	**113.1**	**57.5**	**43.6**	**5.5**	**219.7**
Depreciation and amortisation	**3.4**	**3.6**	**50.2**	**–**	**57.2**
Reportable segment assets	**160.3**	**114.0**	**845.1**	**–**	**1,119.4**
Reportable segment liabilities	**(83.0)**	**(35.2)**	**(463.8)**	**–**	**(582.0)**

Year ended 31 March 2019 *(note)*	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions US$ million	Total US$ million
Reportable segment revenue	994.5	882.9	248.6	35.9	2,161.9
Reportable segment profit	93.2	63.3	31.0	5.7	193.2
Depreciation and amortisation	0.8	1.1	36.1	–	38.0
Reportable segment assets	145.1	122.3	750.0	–	1,017.4
Reportable segment liabilities	(72.3)	(29.5)	(366.9)	(0.1)	(468.8)

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note B under principal accounting policies.

(iii) Reconciliations of reportable segment assets and liabilities

	Note	**2020 US$ million**	2019 *(note)* US$ million
Assets			
Reportable segment assets		**1,119.4**	1,017.4
Intangible assets	10	**17.7**	18.6
Goodwill	11	**36.1**	36.1
Interest in an associate	12	**3.0**	–
Investments	13	**8.3**	5.4
Taxation recoverable	14(a)	**2.6**	3.6
Deferred tax assets	14(b)	**8.3**	5.8
Consolidated total assets		**1,195.4**	1,086.9
Liabilities			
Reportable segment liabilities		**(582.0)**	(468.8)
Taxation payable	14(a)	**(9.0)**	(7.7)
Deferred tax liabilities	14(b)	**(2.9)**	(3.4)
Consolidated total liabilities		**(593.9)**	(479.9)

Note: The Group has initially applied IFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note B under principal accounting policies.

2 Profit Before Taxation

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

	Note	2020 US$ million	2019 US$ million
Staff related costs			
– salaries and wages		**326.2**	335.8
– pension costs: defined contribution schemes	21(a)	**20.2**	20.2
– pension costs: defined benefit scheme	21(b)	**1.5**	1.5
– severance payments		**1.6**	3.6
– share-based payment expenses	22(c)	**3.9**	4.6
		353.4	365.7
Cost of inventories	15(b)	**1,501.9**	1,525.5
Fair value gain on investments measured at fair value through profit or loss *(note (i))*		**(5.9)**	–
Depreciation of tangible assets	7	**37.8**	36.9
Depreciation of right-of-use assets *(note (iii))*	8	**18.5**	–
Amortisation of leasehold land payments	9	**–**	0.1
Amortisation of intangible assets	10	**0.9**	1.0
Gain on disposal of non-current asset held for sale *(note (i))*		**–**	(5.9)
Loss on disposal of tangible assets		**0.1**	–
Auditors' remuneration			
– audit services		**0.8**	0.9
– audit related services		**0.1**	0.1
– tax services		**0.8**	0.6
Operating leases charges: minimum lease payments for leases previously classified as operating leases under IAS 17			
– land and buildings		**–**	27.7
– others		**–**	5.5
Loss allowance for trade debtors	24(a)	**2.0**	0.6
Reversal of loss allowance for trade debtors	24(a)	**(0.6)**	(1.6)
Royalties		**13.6**	12.2
Interest on lease liabilities *(note (ii))*		**5.7**	–
Other interest expenses, net *(note (ii))*		**1.7**	0.9
Provision for defective goods returns	19	**19.4**	20.2
Net foreign exchange loss/(gain)		**0.2**	(0.3)
Net (gain)/loss on forward foreign exchange contracts			
– Net (gain)/loss on cash flow hedging instruments reclassified from equity		**(5.9)**	3.8
– Net gain on forward foreign exchange contracts		**(1.1)**	(1.3)

Notes:

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

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

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

3 Directors' Emoluments and Individuals with Highest Emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefit of Directors) Regulation are as follows:

Directors' emoluments

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	Share-based payment US$ million	Total US$ million
For the year ended 31 March 2020						
Executive Directors *(i)*						
Allan WONG Chi Yun *(ii)*	**–**	**1.1**	**2.0**	**0.1**	**–**	**3.2**
PANG King Fai *(iii)*	**–**	**0.6**	**0.6**	**–**	**0.5**	**1.7**
Andy LEUNG Hon Kwong *(iii)*	**–**	**0.6**	**1.3**	**–**	**0.9**	**2.8**
Non-executive Director						
William WONG Yee Lai *(iv)*	**–**	**–**	**–**	**–**	**–**	**–**
Independent Non-executive Directors						
William FUNG Kwok Lun *(v)*	**–**	**–**	**–**	**–**	**–**	**–**
KO Ping Keung *(vi)*	**–**	**–**	**–**	**–**	**–**	**–**
Patrick WANG Shui Chung *(vii)*	**–**	**–**	**–**	**–**	**–**	**–**
WONG Kai Man *(viii)*	**–**	**–**	**–**	**–**	**–**	**–**
	–	**2.3**	**3.9**	**0.1**	**1.4**	**7.7**

3 Directors' Emoluments and Individuals with Highest Emoluments (Continued)

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	Share-based payment US$ million	Total US$ million
For the year ended 31 March 2019						
Executive Directors *(i)*						
Allan WONG Chi Yun *(ii)*	–	1.1	1.7	0.1	–	2.9
PANG King Fai *(iii)*	–	0.6	0.5	–	0.6	1.7
Andy LEUNG Hon Kwong *(iii)*	–	0.7	1.1	–	1.0	2.8
Independent Non-executive Directors						
William FUNG Kwok Lun *(v)*	–	–	–	–	–	–
KO Ping Keung *(vi)*	–	–	–	–	–	–
Patrick WANG Shui Chung *(vii)*	–	–	–	–	–	–
WONG Kai Man *(viii)*	–	–	–	–	–	–
	–	2.4	3.3	0.1	1.6	7.4

Notes:

(i) The Directors' fee paid to each executive Director, except for Dr. Allan WONG Chi Yun, was US$30,000 (2019: US$30,000) per annum. The Directors' fee paid to Dr. Allan WONG Chi Yun was US$32,000 (2019: US$32,000) per annum.

(ii) Included in the emoluments paid to Dr. Allan WONG Chi Yun, a housing benefit of HK$4,800,000 for the year ended 31 March 2020 (2019: HK$4,800,000), which was based on the tenancy agreement entered into between the Company and Aldenham Company Limited ("Aldenham"). Aldenham is an indirect wholly-owned subsidiary of a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, is the founder.

(iii) Included in the emoluments paid to Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong, an aggregate of 60,000 shares (2019: 55,800 shares) and 100,000 shares (2019: 93,000 shares) were granted to Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong respectively pursuant to the Share Purchase Scheme during the year.

(iv) The Directors' fee paid to Mr. William WONG Yee Lai was US$11,589 for the period from his date of appointment on 12 November 2019 to 31 March 2020.

(v) The Directors' fee paid to Dr. William FUNG Kwok Lun was US$38,000 (2019: US$38,000) per annum.

(vi) The Directors' fee paid to Professor KO Ping Keung was US$37,000 (2019: US$37,000) per annum.

(vii) The Directors' fee paid to Dr. Patrick WANG Shui Chung was US$38,000 (2019: US$38,000) per annum.

(viii) The Directors' fee paid to Mr. WONG Kai Man was US$39,000 (2019: US$39,000) per annum.

Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2019: three) are Directors whose emoluments are set out above. The aggregate of the emoluments in respect of the other two (2019: two) individuals are as follows:

	2020 US$ million	2019 US$ million
Salaries, allowances and benefits in kind	**0.9**	1.3
Discretionary bonuses	**1.0**	1.2
Contributions to retirement benefit schemes	**–**	–
Share-based payment	**0.4**	1.0
	2.3	3.5

The emoluments fell within the following bands:

	2020 Individuals	2019 Individuals
US$		
1,025,001 – 1,089,000	**1**	–
1,217,001 – 1,281,000	**1**	–
1,537,001 – 1,601,000	**–**	1
1,857,001 – 1,921,000	**–**	1
	2	2

During the years ended 31 March 2020 and 31 March 2019, there were no amounts paid to Directors and individuals for compensation for loss of office and inducement for joining the Group.

Emoluments of senior management

Other than the Directors' remuneration and emoluments of five highest individuals disclosed above, the emoluments of the senior management whose profiles are included in Directors and Senior Management section of this Annual Report fell within the following bands:

	2020 Individuals	2019 Individuals
US$		
193,001 – 257,000	**1**	–
321,001 – 385,000	**1**	1
385,001 – 449,000	**–**	1
449,001 – 513,000	**1**	1
577,001 – 641,000	**–**	2
641,001 – 705,000	**1**	1
769,001 – 833,000	**1**	–
1,025,001 – 1,089,000	**1**	–
1,281,001 – 1,345,000	**–**	1
	6	7

4 Taxation

	Note	2020 US$ million	2019 US$ million
Current tax			
– Hong Kong		**13.8**	12.1
– Overseas		**8.2**	9.2
Under/(Over)-provision in respect of prior years			
– Hong Kong		**0.1**	(0.3)
– Overseas		**(0.6)**	(0.1)
Deferred tax			
– Origination and reversal of temporary differences	14(b)	**0.1**	0.1
		21.6	21.0
Current tax		**21.5**	20.9
Deferred tax		**0.1**	0.1
		21.6	21.0

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

(c) Reconciliation between the effective income tax rate and the statutory domestic income tax rate:

The consolidated effective income tax rate for the year ended 31 March 2020 was 10.2% (2019: 10.9%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2020 %	2019 %
Statutory domestic income tax rate	**16.5**	16.5
Difference in overseas income tax rates	**1.5**	1.9
Tax effect of non-temporary differences	**(7.8)**	(7.5)
Effective income tax rate	**10.2**	10.9

5 Dividends

	Note	2020 US$ million	2019 US$ million
Interim dividend of US17.0 cents (2019: US17.0 cents) per share declared and paid	23(b)	**42.8**	42.8
Final dividend of US36.0 cents (2019: US50.0 cents) per share proposed after the end of the reporting period	23(b)	**90.6**	125.9

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

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

6 Earnings Per Share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US$190.7 million (2019: US$171.3 million).

The calculation of basic earnings per share is based on the weighted average of 251.8 million (2019: 251.3 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share for the year ended 31 March 2020 was based on 251.8 million ordinary shares (2019: 251.4 million) which is the weighted average number of ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme and the number of dilutive potential Awarded Shares under the Company's Share Purchase Scheme.

7 Tangible Assets

	Land and buildings US$ million	Leasehold improvements US$ million	Moulds, machinery and equipment US$ million	Computers, motor vehicles, furniture and fixtures US$ million	Construction in progress US$ million	Total US$ million
Cost						
At 1 April 2018	45.5	26.7	326.8	155.1	6.9	561.0
Additions	–	2.9	24.7	9.7	–	37.3
Disposals	–	(0.2)	(7.9)	(3.2)	–	(11.3)
Additions upon acquisition of a subsidiary *(note 26)*	5.3	–	6.9	0.2	–	12.4
Effect of changes in exchange rates	(0.9)	(1.6)	(5.9)	(5.8)	–	(14.2)
At 31 March 2019 and 1 April 2019	49.9	27.8	344.6	156.0	6.9	585.2
Additions	–	2.2	25.9	5.1	–	33.2
Disposals	–	(0.1)	(7.6)	(4.1)	–	(11.8)
Effect of changes in exchange rates	(1.1)	(1.3)	(3.5)	(4.1)	–	(10.0)
At 31 March 2020	**48.8**	**28.6**	**359.4**	**152.9**	**6.9**	**596.6**
Accumulated depreciation						
At 1 April 2018	35.8	14.4	291.4	136.3	6.9	484.8
Charge for the year	1.0	1.9	24.7	9.3	–	36.9
Written back on disposals	–	(0.2)	(7.5)	(3.0)	–	(10.7)
Effect of changes in exchange rates	(0.4)	(0.9)	(4.6)	(4.2)	–	(10.1)
At 31 March 2019 and 1 April 2019	36.4	15.2	304.0	138.4	6.9	500.9
Charge for the year	0.8	2.1	27.0	7.9	–	37.8
Written back on disposals	–	(0.1)	(7.5)	(4.0)	–	(11.6)
Effect of changes in exchange rates	(0.4)	(0.7)	(2.3)	(3.1)	–	(6.5)
At 31 March 2020	**36.8**	**16.5**	**321.2**	**139.2**	**6.9**	**520.6**
Net book value at 31 March 2020	**12.0**	**12.1**	**38.2**	**13.7**	**–**	**76.0**
Net book value at 31 March 2019	13.5	12.6	40.6	17.6	–	84.3

Land and buildings comprise:

	Medium-term leasehold land and buildings US$ million	Short-term leasehold buildings US$ million	Total US$ million
Cost			
At 1 April 2018	3.4	42.1	45.5
Addition upon acquisition of a subsidiary *(note 26)*	5.3	–	5.3
Effect of changes in exchange rates	–	(0.9)	(0.9)
At 31 March 2019 and 1 April 2019	8.7	41.2	49.9
Effect of changes in exchange rates	(0.3)	(0.8)	(1.1)
At 31 March 2020	**8.4**	**40.4**	**48.8**
Accumulated depreciation			
At 1 April 2018	2.2	33.6	35.8
Charge for the year	0.1	0.9	1.0
Effect of changes in exchange rates	–	(0.4)	(0.4)
At 31 March 2019 and 1 April 2019	2.3	34.1	36.4
Charge for the year	0.1	0.7	0.8
Effect of changes in exchange rates	–	(0.4)	(0.4)
At 31 March 2020	**2.4**	**34.4**	**36.8**
Net book value at 31 March 2020	**6.0**	**6.0**	**12.0**
Net book value at 31 March 2019	6.4	7.1	13.5
Net book value of land and buildings at 31 March 2020 comprises:			
Hong Kong			
Medium-term leasehold land and buildings (less than 50 years but not less than 10 years)	1.1	–	1.1
Overseas			
Medium-term leasehold land and buildings	4.9	–	4.9
Short-term leasehold buildings	–	6.0	6.0

7 Tangible Assets (Continued)

Deposit for acquisition of tangible assets

At 31 March 2020, deposit for acquisition of tangible assets of US$1.4 million (2019: US$Nil) represented deposit for acquisition of land and buildings in Malaysia. The balance payment for the acquisition is included in capital commitments (note 25(a)).

8 Right-of-use Assets

	Leasehold land held for own use *(note (i))* US$ million	Other properties leased for own use *(note (ii))* US$ million	Total US$ million
Cost			
At 31 March 2019	–	–	–
Impact on initial application of IFRS 16 *(note (v))*	4.5	130.6	135.1
At 1 April 2019	4.5	130.6	135.1
Additions	–	42.8	42.8
Effect of changes in exchange rates	(0.3)	(5.1)	(5.4)
At 31 March 2020	**4.2**	**168.3**	**172.5**
Accumulated depreciation			
At 1 April 2019	–	–	–
Charge for the year	0.1	18.4	18.5
Effect of changes in exchange rates	(0.1)	(0.7)	(0.8)
At 31 March 2020	**–**	**17.7**	**17.7**
Net book value at 31 March 2020	**4.2**	**150.6**	**154.8**

Notes:

(i) Included in leasehold land held for own use is the amount of US$2.7 million paid for acquisition of certain sites in the PRC.

(ii) The Group has obtained the right to use other properties as its factory, warehouse and office through tenancy agreement. Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date/initial effective date whether it is reasonably certain to exercise the options. All future lease payments during the extension periods are included in the measurement of lease liabilities.

(iii) During the year, additions to right-of-use assets were US$42.8 million. This amount is related to the capitalised lease payments payable under new tenancy agreement as the Group's warehouse and office for its own use. Details of the maturity analysis of lease liabilities and total cash outflow for leases are set out in notes 20(a) and 20(c) respectively.

(iv) For the year ended 31 March 2020, expenses related to short-term leases and other leases with remaining lease term ending on or before 31 March 2020 amounted to US$10.7 million.

(v) The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances to recognise right-of-use assets relating to leases which were previously classified as operating under IAS 17. See note B under principal accounting policies.

9 Leasehold Land Payments

	Note	**2020 US$ million**	2019 US$ million
Net book value at 31 March		**4.5**	4.8
Impact on initial application of IFRS 16:			
Transfer to right-of-use assets *(note (ii))*	8	**(4.5)**	–
Net book value at 1 April		**–**	4.8
Amortisation	2	**–**	(0.1)
Effect of changes in exchange rates		**–**	(0.2)
Net book value at 31 March *(note (i))*		**–**	4.5
Leasehold land payments in respect of:			
Owner-occupied properties		**–**	4.5

Notes:

(i) As at 31 March 2019, included in leasehold land payments is the amount of US$2.8 million paid for the acquisition of certain sites in the PRC.

(ii) The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balance previously classified as operating leases under IAS 17 to right-of-use assets. See note B under principal accounting policies.

10 Intangible Assets

	Brand US$ million	Technology US$ million	Total US$ million
Cost			
At 1 April 2018, 31 March 2019, 1 April 2019 and 31 March 2020	**20.0**	**1.1**	**21.1**
Accumulated amortisation			
At 1 April 2018	1.2	0.3	1.5
Charge for the year	0.8	0.2	1.0
At 31 March 2019 and 1 April 2019	2.0	0.5	2.5
Charge for the year	0.7	0.2	0.9
At 31 March 2020	**2.7**	**0.7**	**3.4**
Net book value at 31 March 2020	**17.3**	**0.4**	**17.7**
Net book value at 31 March 2019	18.0	0.6	18.6

The amortisation charge for the year is included in administrative and other operating expenses in the consolidated statement of profit or loss.

11 Goodwill

	2020 US$ million	2019 US$ million
Cost		
At 1 April	**36.1**	31.1
Arising from acquisition of a subsidiary *(note 26)*	**–**	5.0
At 31 March	**36.1**	36.1

Goodwill arose from the acquisition of the entire equity interest in LeapFrog Enterprises, Inc. ("LeapFrog"), Snom Technology GmbH ("Snom") and VTech Communications (Malaysia) Sdn. Bhd. ("VTech Malaysia"). Details of the acquisition of VTech Malaysia during the year ended 31 March 2019 are set out in note 26 to the financial statements.

Impairment tests for cash generating units containing goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") identified as follows:

	2020 US$ million	2019 US$ million
Electronic Learning Products	**23.2**	23.2
Snom	**7.9**	7.9
VTech Malaysia	**5.0**	5.0
	36.1	36.1

In accordance with IAS 36, *Impairment of Assets*, the Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the end of the reporting period. Goodwill impairment reviews have been performed at the lowest level of CGU which generates cash flows independently.

The recoverable amount of Electronic Learning Products is determined based on value-in-use calculation. The calculation uses cash flow projections based on a five-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 1% (2019: not more than 1%). The discount rate used of approximately 14.6% (2019: 14.8%) is pre-tax and reflects specific risks related to the relevant operation.

The recoverable amount of Snom is determined based on value-in-use calculation. The calculation uses cash flow projections based on a five-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 1% (2019: not more than 1%). The discount rate used of approximately 15.4% (2019: 15.4%) is pre-tax and reflects specific risks related to the relevant operation.

The recoverable amount of VTech Malaysia is determined based on value-in-use calculation. The calculation uses cash flow projections based on a five-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 1% (2019: not more than 1%). The discount rate used of approximately 15.5% (2019: 15.7%) is pre-tax and reflects specific risks related to the relevant operation.

The budgeted gross margin and net profit margin are determined by management for each individual CGU based on past performance and its expectations for market development. Management believes that any reasonably foreseeable changes in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

12 Interest in an Associate

The information of the associate company, which is individually immaterial, is as follows:

	2020 US$ million
The carrying amount of this associate company in the consolidated financial statements	**3.0**
The amount of the Group's share of the associate's	
Post-tax profit	**–**
Other comprehensive income	**–**
Total comprehensive income	**–**

13 Investments

At 31 March 2020, investments of US$8.3 million (2019: US$5.4 million) included investments in unlisted companies measured at fair value through profit or loss.

14 Income Tax in the Consolidated Statement of Financial Position

(a) Current taxation in the consolidated statement of financial position represents:

	2020 US$ million	2019 US$ million
Provision for profits tax for the year	**(22.0)**	(21.3)
Provisional profits tax paid	**17.5**	16.4
	(4.5)	(4.9)
Balance of profits tax (payable)/recoverable relating to prior years	**(1.9)**	0.8
	(6.4)	(4.1)
Represented by:		
Taxation recoverable *(note (i))*	**2.6**	3.6
Taxation payable *(note (i))*	**(9.0)**	(7.7)
	(6.4)	(4.1)

Note:

(i) Taxation recoverable/(payable) in the consolidated statement of financial position comprises provision for Hong Kong Profits Tax and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant jurisdictions and after netting off provisional tax paid.

(b) The components of deferred tax assets/(liabilities) and the movements for the years ended 31 March 2020 and 31 March 2019 are as follows:

	Note	**Unutilised tax losses US$ million**	**Intangible assets arising from business combination US$ million**	**Depreciation of right-of-use assets US$ million**	**Other temporary differences US$ million**	**Total US$ million**
Deferred tax arising from:						
At 1 April 2018		1.8	(2.3)	–	3.8	3.3
(Charged)/Credited to consolidated statement of profit or loss	4	(0.2)	0.1	–	–	(0.1)
Charged to other comprehensive income		–	–	–	(0.8)	(0.8)
At 31 March 2019		1.6	(2.2)	–	3.0	2.4
At 1 April 2019 as previously stated		1.6	(2.2)	–	3.0	2.4
Impact on initial application of IFRS 16 *(note B)*		–	–	2.6	–	2.6
At 1 April 2019		1.6	(2.2)	2.6	3.0	5.0
(Charged)/Credited to consolidated statement of profit or loss	4	(0.1)	0.1	–	(0.1)	(0.1)
Credited to other comprehensive income		–	–	–	0.5	0.5
At 31 March 2020		**1.5**	**(2.1)**	**2.6**	**3.4**	**5.4**

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority on the same taxable entity. The following amounts are shown in the consolidated statement of financial position:

	2020 US$ million	2019 US$ million
Deferred tax assets	**8.3**	5.8
Deferred tax liabilities	**(2.9)**	(3.4)
	5.4	2.4

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Deferred tax assets of US$10.6 million (2019: US$14.6 million) arising from unused tax losses sustained in the operations of certain subsidiaries of US$55.1 million (2019: US$74.4 million) have not been recognised as the availability of future taxable profits against which the assets can be utilised is not considered to be probable at 31 March 2020.

The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in the PRC expire 5 years after the relevant accounting year end date in which they arose. The tax losses arising from the operations in the United States in tax years ending before 1 January 2019 expire up to 20 years after the relevant accounting year end date in which they arose, depending on the relevant jurisdictions.

15 Stocks

(a) Stocks in the consolidated statement of financial position comprise:

	2020 US$ million	2019 US$ million
Raw materials	**136.5**	142.3
Work in progress	**50.6**	40.7
Finished goods	**185.5**	186.9
	372.6	369.9

Stocks carried at net realisable value at 31 March 2020 amounted to US$39.2 million (2019: US$20.0 million).

(b) The analysis of the amount of stocks recognised as an expense and included in the consolidated statement of profit or loss is as follows:

	2020 US$ million	2019 US$ million
Carrying amount of stocks sold	**1,493.1**	1,514.6
Write-down of stocks	**11.0**	13.7
Reversal of write-down of stocks	**(2.2)**	(2.8)
	1,501.9	1,525.5

The reversal of write-down of stocks arose due to an increase in estimated net realisable value of certain products as a result of change in consumer preferences.

16 Debtors, Deposits and Prepayments

	Note	2020 US$ million	2019 US$ million
Trade debtors (Net of loss allowance of US$8.5 million (2019: US$7.7 million))	16(a)& 24(a)	**221.5**	263.0
Other debtors, deposits and prepayments		**45.4**	48.4
Financial assets measured at amortised cost		**266.9**	311.4
Forward foreign exchange contracts held as cash flow hedging instruments	24(b), (d)&(e)	**5.2**	7.7
		272.1	319.1

All of other debtors, deposits and prepayments apart from the amounts of US$7.2 million (comprised largely of rental deposits) (2019: US$7.9 million) are expected to be recovered or recognised as an expense within one year.

(a) Ageing Analysis

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

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

The majority of the Group's sales are on letters of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in note 24(a).

17 Deposits and Cash

	2020 US$ million	2019 US$ million
Short term bank deposits	**2.1**	28.0
Cash at bank and in hand	**240.4**	209.0
	242.5	237.0

Deposits and cash as at 31 March 2020 include US$23.9 million (2019: US$13.2 million) placed with banks in the PRC, the remittance of which is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

18 Creditors and Accruals

	Note	2020 US$ million	2019 US$ million
Trade creditors	18(a)	**195.4**	244.7
Contract liabilities	18(b)	**14.8**	11.6
Other creditors and accruals	18(c)	**180.2**	187.1
Forward foreign exchange contracts held as cash flow hedging instruments	24(b), (d)&(e)	**0.4**	0.5
		390.8	443.9

(a) Ageing Analysis

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

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

(b) Contract liabilities

The Group may bill in advance of performance in manufacturing arrangements for certain customers. Contract liabilities of US$11.6 million (2019: US$12.4 million) were recognised as revenue during the year ended 31 March 2020 upon the transfer of control over the products to the customers.

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date for its sales contracts for electronic products as the performance obligations had an original expected duration of one year or less.

(c) Other creditors and accruals

Other creditors and accruals comprised largely accruals for staff costs, advertising and promotion expenses, rebates and allowances to customers, and miscellaneous operating expenses.

Other creditors and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

19 Provisions for Defective Goods Returns and Other Liabilities

At 31 March 2020, provisions of US$24.2 million (2019: US$24.9 million) include provision for defective goods returns of US$17.4 million (2019: US$17.8 million) and other liabilities of US$6.8 million (2019: US$7.1 million).

Movement of provision for defective goods returns is as follows:

	2020 US$ million	2019 US$ million
At 1 April	**17.8**	20.3
Additional provision charged to consolidated statement of profit or loss	**19.4**	20.2
Utilised during the year	**(19.8)**	(22.7)
At 31 March	**17.4**	17.8

The Group undertakes to repair or replace items that fail to perform satisfactorily in accordance with the terms of the sales. A provision is recognised for expected return claims, which included cost of repairing or replacing defective goods, loss of margin and cost of materials scrapped, based on past experience of the level of repairs and returns.

20 Lease Liabilities

(a) The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	At 31 March 2020	
	Present value of the minimum lease payments US$ million	**Total minimum lease payments US$ million**
Within 1 year	**17.9**	**24.1**
After 1 year but with 2 years	**13.2**	**18.7**
After 2 years but within 5 years	**30.7**	**45.1**
After 5 years	**103.4**	**126.2**
	147.3	**190.0**
	165.2	**214.1**
Less: total future interest expenses		**(48.9)**
Present value of lease liabilities		**165.2**

	At 1 April 2019	
	Present value of the minimum lease payments US$ million	Total minimum lease payments US$ million
Within 1 year	15.2	20.6
After 1 year but with 2 years	15.3	20.4
After 2 years but within 5 years	29.6	41.5
After 5 years	84.3	99.8
	129.2	161.7
	144.4	182.3
Less: total future interest expenses		(37.9)
Present value of lease liabilities		144.4

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Further details on the impact of the transition to IFRS 16 are set out in note B under principal accounting policies.

(b) Reconciliation of liabilities arising from financing activities:

	Lease Liabilities US$ million
At 31 March 2019	–
Impact on initial application of IFRS 16 (Note B)	144.4
At 1 April 2019	**144.4**
Changes from financing cash flows:	
Capital element of lease rentals paid	(17.1)
Total changes from financing cash flows	(17.1)
Exchange adjustments	(4.9)
Other change	
Increase in lease liabilities from entering into new leases during the year	42.8
Total other changes	42.8
At 31 March 2020	**165.2**

(c) Total cash outflow for leases:

Amounts included in the consolidated statement of cash flows for lease rentals paid comprise the following:

	2020 US$ million	2019 *(note)* US$ million
Within operating cash flows	**16.4**	33.2
Within financing cash flows	**17.1**	–
	33.5	33.2

Note: As explained in note B under principal accounting policies, the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

21 Pension Schemes

The Group operates a defined benefit scheme and defined contribution schemes in Hong Kong and overseas. The defined contribution scheme operated in Hong Kong complies with the requirements under the Mandatory Provident Fund ("MPF") Ordinance.

(a) Defined contribution schemes

For the defined contribution schemes operated for overseas employees and Hong Kong employees under the MPF Ordinance, the retirement benefit costs expensed in the consolidated statement of profit or loss amounted to US$19.2 million (2019: US$19.2 million) and US$1.0 million (2019: US$1.0 million) respectively.

(b) Defined benefit scheme

For the defined benefit scheme (the "Scheme") operated for Hong Kong employees, contributions made by the Group during the year were calculated based on advice from Towers Watson Hong Kong Limited ("Towers Watson"), independent actuaries and consultants. The Scheme is valued annually. The latest actuarial valuation was completed by Towers Watson as at 31 March 2020 using the projected unit credit method.

21 Pension Schemes (Continued)

(b) Defined benefit scheme (Continued)

(i) For the defined benefit scheme, the amounts recognised in the consolidated statement of financial position are as follows:

	2020 US$ million	2019 US$ million
Fair value of Scheme assets	**31.5**	36.0
Present value of funded defined benefit obligations	**(33.3)**	(33.4)
Net (obligations)/assets on defined benefit scheme recognised in the consolidated statement of financial position	**(1.8)**	2.6

A portion of the above obligations is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay US$1.3 million in contributions to defined benefit retirement scheme in the year ending 31 March 2021.

(ii) Movement in fair value of Scheme assets:

	2020 US$ million	2019 US$ million
At 1 April	**36.0**	36.7
Interest income on Scheme assets	**0.5**	0.7
Return on Scheme assets excluding interest income	**(2.3)**	(0.7)
Actual Group's contributions	**1.2**	1.3
Actual benefits paid	**(3.8)**	(1.9)
Administrative expenses paid from Scheme assets	**(0.1)**	(0.1)
At 31 March	**31.5**	36.0

(iii) Movement in present value of defined benefit obligations:

	2020 US$ million	2019 US$ million
At 1 April	**33.4**	34.0
Actuarial losses/(gains) arising from changes in liability experience	**0.2**	(0.2)
Actuarial losses/(gains) arising from changes in financial assumptions	**1.6**	(0.8)
Actuarial losses arising from changes in demographic assumptions	**–**	0.2
Interest cost	**0.5**	0.6
Current service cost	**1.4**	1.5
Actual benefits paid	**(3.8)**	(1.9)
At 31 March	**33.3**	33.4

The weighted average duration of the defined benefit obligations is 6.1 years (2019: 6.1 years).

(iv) The amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	Note	2020 US$ million	2019 US$ million
Current service cost		**1.4**	1.5
Net interest income on net defined benefit asset		**–**	(0.1)
Administrative expenses paid from Scheme assets		**0.1**	0.1
Amounts recognised in profit or loss	2	**1.5**	1.5
Actuarial losses/(gains)		**1.8**	(0.8)
Return on Scheme assets excluding interest income		**2.3**	0.7
Amounts recognised in other comprehensive income		**4.1**	(0.1)
Total defined benefit expense		**5.6**	1.4

(v) Scheme assets consist of the following:

	2020 US$ million	2019 US$ million
Equity securities:		
– Financial institutions	**3.8**	5.5
– Non-financial institutions	**8.7**	11.3
	12.5	16.8
Bonds:		
– Government	**8.5**	7.8
– Non-government	**9.4**	10.6
	17.9	18.4
Cash and others	**1.1**	0.8
	31.5	36.0

(vi) The significant actuarial assumptions used as at 31 March 2020 (expressed as weighted average) and sensitivity analysis are as follows:

	2020	2019
Discount rate	**0.6%**	1.4%
Future salary increases	**3.5%**	3.5%

The below analysis shows how the net obligations on defined benefit scheme as at 31 March 2020 would have increased/(decreased) as a result of a 0.25% point change in the significant actuarial assumptions:

	Increase in 0.25% point US$ million	Decrease in 0.25% point US$ million
Discount rate	**(0.5)**	**0.5**
Future salary increases	**0.5**	**(0.5)**

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

22 Share Capital, Share Options and Share Purchase Scheme

(a) Share Capital

	2020 US$ million	2019 US$ million
Authorised		
Ordinary shares: 400,000,000 (2019: 400,000,000) of US$0.05 each	**20.0**	20.0

	2020		2019	
	No. of shares	**US$ million**	No. of shares	US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At 1 April	**251,572,133**	**12.6**	251,372,133	12.6
Issue of new shares under general mandate pursuant to the Share Purchase Scheme	**207,000**	**–**	200,000	–
At 31 March	**251,779,133**	**12.6**	251,572,133	12.6

The Company's issued and fully paid shares as at 31 March 2020 included 273,220 shares (2019: 361,300 shares) held in trust by the trustee under the Share Purchase Scheme, of which 33,900 shares (2019: 12,000 shares) were held in trust by the trustee under the French Subplan which were granted to the eligible French employees and remain unvested, details of which are set out in note 22(c).

The company level statement of financial position can be found in note 28.

(b) Share Options

The Company operates the Share Option Scheme approved on 22 July 2011 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Pursuant to the Share Option Scheme, the Directors are authorised, at any time during the 10 years from the date of adoption of the Share Option Scheme, to grant options to employees and officers of any member of the Group to subscribe for shares of the Company at prices to be determined by the Directors in accordance with the requirements of the Listing Rules. The basis of determination of the exercise price shall be the higher of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

Pursuant to Chapter 17 of the Listing Rules, the Company can issue options so that the number of shares that may be issued upon exercise of all options to be granted under the scheme and any other schemes does not in aggregate exceed 10% of the relevant class of shares in issue as at the date of adoption of the Share Option Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular. The Company may also seek separate shareholders' approval for granting options beyond the 10% limit to eligible participants specifically identified by the Company, subject to shareholders' approval and the issue of a circular. The Company can issue options so that shares to be issued upon exercise of all outstanding options does not exceed 30% of the relevant class of shares in issue from time to time. Subject to the further restrictions in the Listing Rules concerning grant of options to substantial shareholders, the total number of shares issued and to be issued upon exercise of options granted and to be granted to any one eligible participant in any 12-month period must not exceed 1% of the relevant class of shares in issue. The Company can grant further options in excess of this limit, subject to shareholders' approval (with that eligible participant and his associates abstaining from voting) and the issue of a circular.

The offer of a grant of options may be accepted within 30 days from the date of offer, upon payment of a non-refundable sum of HK$1 by the grantee. The period within which the options must be exercised will be specified by the Company at the time of grant, and must expire no later than 10 years from the date of grant. The Company may specify any minimum period(s) for which an option must be held before it can be exercised. The Share Option Scheme does not contain any such minimum period. The Share Option Scheme has a life of 10 years and will expire on 21 July 2021. As at the date of this Annual Report, the number of shares which may be issued upon exercise of options to be granted under the Share Option Scheme is 23,145,913 shares, which represented approximately 9.2% of the issued share capital of the Company as at the date of the Annual Report. During the financial year and since the adoption of the Share Option Scheme, no options were granted, exercised, cancelled or lapsed under the Share Option Scheme. The new shares, when issued and fully paid, will rank pari passu among themselves and with the shares currently in issue, pursuant to the Share Option Scheme.

(c) Share Purchase Scheme

On 30 March 2011 ("the Adoption Date"), the Company adopted the Share Purchase Scheme, which is a share incentive award scheme for the purpose of incentivising employees and attracting suitable personnel for the continuous development of the Group. Eligible participants of the Share Purchase Scheme include Directors, officers and employees of any member of the Group as the Remuneration Committee may determine or approve. The Awarded Shares will be the existing shares, which will be purchased on the Stock Exchange by the independent trustee with funds provided by the Company, and will be awarded in such manner as the Remuneration Committee may determine or approve. The maximum number of shares that can be held by the trustee under the Share Purchase Scheme is limited to 3% of the issued share capital of the Company from time to time (excluding shares which have already been transferred to employees on vesting). The Share Purchase Scheme shall be valid and effective for a term of 20 years from the Adoption Date. The Awarded Shares will be granted to the eligible participants at no consideration subject to the applicable conditions and vesting period as determined by the Remuneration Committee.

22 Share Capital, Share Options and Share Purchase Scheme (Continued)

(c) Share Purchase Scheme (Continued)

On 26 March 2013, the Company adopted the French Subplan. The Awarded Shares will be granted to the eligible French employees of the Group pursuant to the Share Purchase Scheme and the French Subplan subject to the defined vesting period. The vesting period applicable under the French Subplan is currently not less than 1 year following the date of the award and a further 1 year sales restriction period as calculated from the date of the Awarded Shares being transferred to the eligible French employees.

On 19 May 2015, the Company further amended and extended the Share Purchase Scheme such that the Company may furnish the trustee of the Share Purchase Scheme with cash to subscribe for new shares under the general mandate of the Company (as approved by the annual general meeting of the Company from time to time) and hold such new shares in trust for the selected participants (not being connected persons of the Company) under the Share Purchase Scheme. The new shares, when issued and fully paid, will rank pari passu among themselves and with the shares currently in issue, pursuant to the Share Purchase Scheme.

During the year ended 31 March 2020, 141,000 shares (2019: 334,100 shares) were purchased on the Stock Exchange pursuant to the Share Purchase Scheme, and 207,000 new shares (2019: 200,000 shares) were issued under the general mandate of the Company pursuant to the Share Purchase Scheme. The total amount paid to purchase such shares during the financial year was approximately US$1.2 million (2019: US$3.4 million).

Details of the Awarded Shares (including those awarded pursuant to the French Subplan) which have been granted to the executive Directors, senior management and eligible employees during each of the years ended 31 March 2020 and 31 March 2019, respectively, are as follows:

Date of award *(note 1)*	**Number of Awarded Shares granted** *(note 5)*	**Cost of related Awarded Shares**	**Vesting Period for Awarded Shares granted under Share Purchase Scheme**	**Vesting Period for Awarded Shares granted under French Subplan**
Year ended 31 March 2020				
21 May 2019	49,000 *(note 2)*	US$0.4 million	31 May 2019 to 6 June 2019	–
24 June 2019	221,480 *(notes 4&5)*	US$2.1 million	24 June 2019 to 30 June 2019	24 June 2020 to 30 June 2020
16 January 2020	269,000 *(notes 2&3)*	US$1.4 million	19 May 2020 to 25 May 2020	–
Year ended 31 March 2019				
22 June 2018	198,500 *(notes 4&5)*	US$2.5 million	22 June 2018 to 28 June 2018	22 June 2020 to 28 June 2020
4 January 2019	200,000 *(notes 2&3)*	US$2.1 million	21 May 2019 to 27 May 2019	–

Notes:

(1) The date of award refers to the date on which the Company issued the letter of award to the eligible participants for the entitlement to the Awarded Shares.

(2) 40,000 Awarded Shares, 49,000 Awarded Shares and 109,000 Awarded Shares were granted to senior management on 4 January 2019, 21 May 2019 and 16 January 2020 respectively. These Awarded Shares were purchased on the Stock Exchange by the trustee of the Share Purchase Scheme, of which 1,300 Awarded Shares granted on 21 May 2019 were not vested during the financial year as certain performance conditions were not met.

(3) 160,000 Awarded Shares and 160,000 Awarded Shares were granted to executive Directors on 4 January 2019 and 16 January 2020 respectively. These Awarded Shares were purchased on the Stock Exchange by the trustee of the Share Purchase Scheme, of which 11,200 Awarded Shares granted on 4 January 2019 were not vested during the financial year as certain performance conditions were not met.

(4) Awarded Shares included the new shares allotted and issued by the Company to the trustee of the Share Purchase Scheme for the selected participants (not being connected persons of the Company).

(5) These Awarded Shares included 28,100 Awarded Shares (2019: 5,800 Awarded Shares) granted under the French Subplan during the financial year.

(6) No Awarded Shares were granted to non-executive Directors during the financial year.

(7) Except for the unvested Awarded Shares as in notes (2) and (3), no Awarded Shares lapsed or were cancelled during the financial year.

As at 31 March 2020, a total of 273,220 shares (2019: 361,300 shares) were held in trust by the trustee under the Share Purchase Scheme of which 33,900 shares (2019: 12,000 shares) were held in trust by the trustee under the French Subplan which were granted to the eligible French employees and remain unvested. The trustee can exercise the voting rights of the shares held in trust in any general meetings as shareholder as it sees fit (and the Company has no power to influence how the trustee should exercise this discretion). Dividends derived from the shares held under the said trust will be reinvested to acquire further shares.

During the year ended 31 March 2020, share-based payment expenses US$3.9 million (2019: US$4.6 million) in respect of the Awarded Shares were charged to the consolidated statement of profit or loss.

22 Share Capital, Share Options and Share Purchase Scheme (Continued)

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group has no bank borrowings as at 31 March 2020 and 31 March 2019. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

In order to monitor its capital structure, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares, return capital to shareholders or raise new debt financing.

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 April 2019. This caused a significant increase in the Group's total debt and hence the Group's adjusted net debt-to-capital ratio rose from 26% to 57% on 1 April 2019 when compared to its position as at 31 March 2019.

The Group's adjusted capital at 31 March 2020 and 31 March 2019 and at the date of transition to IFRS 16 is as follows:

	31 March 2020 **US$ million**	1 April 2019 *(note)* US$ million	31 March 2019 US$ million
Total equity	**601.5**	595.8	607.0
Less: Proposed dividends	**(90.6)**	(125.8)	(125.8)
	510.9	470.0	481.2

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Under this approach, the comparative information is not restated. See note B under principal accounting policies.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 Reserves

(a) The Group

Details of the movements in reserves of the Group during the years ended 31 March 2020 and 31 March 2019 are set out in the consolidated statement of changes in equity.

(b) The Company

	Note	Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Exchange reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 2018		12.6	151.8	(0.2)	(1.0)	286.7	449.9
Changes in equity for the year ended 31 March 2019							
Comprehensive income							
Profit for the year		–	–	–	–	158.4	158.4
Total comprehensive income for the year		–	–	–	–	158.4	158.4
Final dividend in respect of the previous year		–	–	–	–	(158.5)	(158.5)
Interim dividend in respect of the current year	5	–	–	–	–	(42.8)	(42.8)
Shares issued under Share Purchase Scheme		–	2.5	(2.5)	–	–	–
Shares purchased for Share Purchase Scheme	22(c)	–	–	(3.4)	–	–	(3.4)
Vesting of shares of Share Purchase Scheme	22(c)	–	–	4.6	–	–	4.6
At 31 March 2019 and 1 April 2019		12.6	154.3	(1.5)	(1.0)	243.8	408.2
Changes in equity for the year ended 31 March 2020							
Comprehensive income							
Profit for the year		–	–	–	–	156.3	156.3
Total comprehensive income for the year		–	–	–	–	156.3	156.3
Final dividend in respect of the previous year	5	–	–	–	–	(125.9)	(125.9)
Interim dividend in respect of the current year	5	–	–	–	–	(42.8)	(42.8)
Shares issued under Share Purchase Scheme		–	1.9	(1.9)	–	–	–
Shares purchased for Share Purchase Scheme	22(c)	–	–	(1.2)	–	–	(1.2)
Vesting of shares of Share Purchase Scheme	22(c)	–	–	3.9	–	–	3.9
At 31 March 2020		**12.6**	**156.2**	**(0.7)**	**(1.0)**	**231.4**	**398.5**

Reserves of the Company available for distribution to shareholders amounted to US$231.4 million (2019: US$243.8 million).

23 Reserves (Continued)

(c) Nature and purpose of reserves

The application of share premium account is governed by the Companies Act 1981 of Bermuda.

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operations.

The hedging reserve comprises the effective portion of the cumulative net change in fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows.

24 Financial Risk Management and Fair Values

Exposure to credit, currency, interest rate and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade debtors. The Group's exposure to credit risk arising from cash and cash equivalents and derivative financial assets is limited because the counterparties are banks, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade debtors

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 11.2% (2019: 9.1%) and 39.6% (2019: 36.1%) of the total trade debtors was due from the Group's largest customer and the five largest customers respectively.

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.

The Group measures loss allowances for trade debtors at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors as at 31 March 2020 and 31 March 2019:

	31 March 2020		
	Expected loss rate %	**Gross carrying amount US$ million**	**Loss allowance US$ million**
Current (not past due)	**0.1%**	**199.8**	**(0.1)**
1-30 days past due	**7.5%**	**22.6**	**(1.7)**
31-60 days past due	**83.6%**	**5.5**	**(4.6)**
61-90 days past due	**100.0%**	**0.4**	**(0.4)**
More than 90 days past due	**100.0%**	**1.7**	**(1.7)**
	3.7%	**230.0**	**(8.5)**

	31 March 2019		
	Expected loss rate %	Gross carrying amount US$ million	Loss allowance US$ million
Current (not past due)	0.1%	247.7	(0.2)
1-30 days past due	13.2%	17.4	(2.3)
31-60 days past due	83.3%	2.4	(2.0)
61-90 days past due	100.0%	1.3	(1.3)
More than 90 days past due	100.0%	1.9	(1.9)
	2.8%	270.7	(7.7)

Expected loss rates are based on actual loss experience over the past year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data have been collected, current conditions, recent settlement experience and the Group's view of economic conditions over the expected lives of the trade debtors. At 31 March 2020, the overall expected loss rate was 3.7% (2019: 2.8%) which reflected the settlement experience on the trade debtors.

Movement in the loss allowance account in respect of trade debtors during the year is as follows:

	2020 US$ million	2019 US$ million
At 1 April	**7.7**	9.3
Amounts written off during the year	**(0.5)**	(0.5)
Loss allowance recognised	**2.0**	0.6
Reversal of loss allowance	**(0.6)**	(1.6)
Effect of changes in exchange rates	**(0.1)**	(0.1)
At 31 March	**8.5**	7.7

(b) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in currencies other than the functional currency of the operations to which they relate. As the Hong Kong Dollar ("HKD") is pegged to United States Dollar ("USD"), the Group does not expect any significant movements in the HKD/USD exchange rate. The currencies giving rise to foreign currency risk are primarily denominated in Euro ("EUR"), Pounds Sterling ("GBP"), Canadian dollars ("CAD"), Australian dollars ("AUD") and Renminbi ("RMB"). The Group manages this risk as follows:

(i) Hedges of foreign currency risk in forecast transactions

The Group uses forward exchange contracts to manage its currency risk until the settlement date of foreign currency receivables or payables. The Group designates those forward exchange contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of a forward exchange contract but instead designates the forward exchange contract in its entirety in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate.

The Group enters into forward foreign exchange contracts in order to hedge the currency risk in respect of highly probable forecast sales transactions. Forward foreign exchange contracts are matched with anticipated future cash flows. As at 31 March 2020, the notional principal amounts of these outstanding forward foreign exchange contracts were US$211.1 million (2019: US$24.2 million) with net positive fair value of US$3.8 million (2019: US$1.9 million) recognised as derivative financial instruments.

24 Financial Risk Management and Fair Values (Continued)

(b) Currency risk (Continued)

(i) Hedges of foreign currency risk in forecast transactions (Continued)

In addition, the Group uses forward foreign exchange contracts to hedge the exchange rate fluctuation for the purchase of RMB in respect of highly probable forecast transactions for the Group's PRC operations. Forward foreign exchange contracts are matched with anticipated future cash flows. As at 31 March 2020, the notional principal amounts of these outstanding forward foreign exchange contracts for hedging highly probable forecast transactions were US$292.4 million (2019: US$244.4 million) with net positive fair value of US$1.0 million (2019: US$5.3 million) recognised as derivative financial instruments.

The Group does not anticipate any material adverse effect on its financial position resulting from its involvement in these financial instruments, nor does it anticipate non-performance by any of its counterparties.

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements providing offsetting mechanism under certain circumstances. At 31 March 2020 and 2019, the Group has not offset any of the financial instruments as no parties have exercised their rights to offset the recognised amounts in the financial statements.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the forward exchange contracts and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows. The main sources of ineffectiveness in these hedging relationships are:

(a) the effect of the counterparty's and the Group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(b) changes in the timing of the hedged transactions.

The following table details the forward exchange contracts that have been designated as cash flow hedges of the Group's highly probable forecast transactions at the end of the reporting period:

	2020		2019	
	Foreign currency million	**US$ million**	Foreign currency million	US$ million
Notional amount				
– Sell AUD	**0.9**	**0.6**	–	–
– Sell CAD	**11.0**	**8.4**	–	–
– Sell GBP	**7.5**	**9.9**	–	–
– Sell EUR	**170.9**	**192.2**	19.5	24.2
– Buy RMB	**2,088.8**	**292.4**	1,681.9	244.4

	2020 US$ million	2019 US$ million
Carrying amount *(note)*		
– Asset	**5.2**	7.7
– Liability	**(0.4)**	(0.5)

Note: Forward exchange contract assets and liabilities are included in the "Debtors, Deposits and Prepayments" (note 16) and "Creditors and Accruals" (note 18) line items in the consolidated statement of financial position respectively.

The forward exchange contracts have a maturity of less than one year from the reporting date and have an average exchange rate between the respective foreign currencies and USD as follows:

	2020	2019
AUD to USD	**0.70000**	–
USD to CAD	**1.30700**	–
GBP to USD	**1.31800**	–
EUR to USD	**1.12435**	1.23893
USD to RMB	**7.14369**	6.88192

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2020 US$ million	2019 US$ million
Balance at 1 April	**5.4**	(4.0)
Effective portion of the cash flow hedge recognised in other comprehensive income	**(2.3)**	10.3
Related tax	**0.2**	(0.9)
Balance at 31 March	**3.3**	5.4
Change in fair value of the derivative instruments during the year	**(1.2)**	11.6
Hedging ineffectiveness recognised in profit or loss	**(1.1)**	(1.3)
Effective portion of the cash flow hedge recognised in other comprehensive income	**(2.3)**	10.3

(ii) Sensitivity analysis

A sensitivity analysis was performed at 31 March 2020 to measure the instantaneous change in the Group's profit after tax and total equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HKD and USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

Management estimated that a 5% appreciation/depreciation of EUR, GBP, CAD, AUD and RMB against USD respectively would not have a material effect on the Group's profit after taxation and equity attributable to shareholders for the years ended 31 March 2020 and 31 March 2019.

The sensitivity analysis performed represents an aggregation of the instantaneous effects on each of the Group entities' profit after tax and total equity measured in the respective functional currencies.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those recognised assets or liabilities held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2019.

24 Financial Risk Management and Fair Values (Continued)

(c) Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rates changes on income-earning financial assets. The following table indicates their effective interest rates at the end of the reporting period.

Deposits and cash

	2020		2019	
	Effective interest rate	**US$ million**	Effective interest rate	US$ million
Variable rate	**0.51%**	**240.4**	0.67%	209.0
Fixed rate	**2.04%**	**2.1**	2.32%	28.0

Interest rate sensitivity

At the end of the respective reporting period, if interest rates had been increased by 25 basis points and all other variables were held constant, the Group's profit after tax and total equity would increase by approximately US$0.4 million and US$0.4 million for the years ended 31 March 2020 and 31 March 2019, respectively. This is mainly attributable to the Group's exposure to interest rate changes on its variable rate income-earning financial assets including floating rate deposits and cash. The analysis is performed on the same basis for 2019.

(d) Liquidity risk

Cash management of the Company and wholly-owned subsidiaries of the Group are substantially centralised at the Group level. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

			Contractual undiscounted cash flows				
	Note	**Carrying amount US$ million**	**Total US$ million**	**Within 1 year or on demand US$ million**	**More than 1 year but less than 2 years US$ million**	**More than 2 years but less than 5 years US$ million**	**After 5 years US$ million**
At 31 March 2020							
Trade creditors	18	**195.4**	**195.4**	**195.4**	**–**	**–**	**–**
Other creditors and accruals	18	**180.2**	**180.2**	**180.2**	**–**	**–**	**–**
Lease liabilities *(note)*	20(a)	**165.2**	**214.1**	**24.1**	**18.7**	**45.1**	**126.2**
Derivatives settled gross:							
Forward foreign exchange contracts	24(b)(i)						
– cash flow hedge							
– outflow			**499.6**	**499.6**	**–**	**–**	**–**
– inflow			**(504.4)**	**(504.4)**	**–**	**–**	**–**
At 31 March 2019							
Trade creditors	18	244.7	244.7	244.7	–	–	–
Other creditors and accruals	18	187.1	187.1	187.1	–	–	–
Derivatives settled gross:							
Forward foreign exchange contracts	24(b)(i)						
– cash flow hedge							
– outflow			266.7	266.7	–	–	–
– inflow			(273.9)	(273.9)	–	–	–

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note B under principal accounting policies.

24 Financial Risk Management and Fair Values (Continued)

(e) Fair values measurement

The fair values of debtors, deposits and prepayments, deposits and cash and creditors and accruals approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

Financial instruments carried at fair value

The Group's financial instruments are measured at fair value at the end of the reporting period on a recurring basis, categorised into three-level fair value hierarchy as defined in IFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair values measured using significant unobservable inputs

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position. All fair value measurements below are recurring.

		Fair value measurements categorised into		
	Fair value US$ million	**Level 1 US$ million**	**Level 2 US$ million**	**Level 3 US$ million**
At 31 March 2020				
Assets:				
Forward foreign exchange contracts	**5.2**	**–**	**5.2**	**–**
Investments	**8.3**	**–**	**–**	**8.3**
Liabilities:				
Forward foreign exchange contracts	**(0.4)**	**–**	**(0.4)**	**–**
At 31 March 2019				
Assets:				
Forward foreign exchange contracts	7.7	–	7.7	–
Investments	5.4	–	–	5.4
Liabilities:				
Forward foreign exchange contracts	(0.5)	–	(0.5)	–

During the years ended 31 March 2020 and 31 March 2019, there were no transfers between Level 1 and Level 2 of the fair value hierarchy classifications. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward foreign exchange contracts in Level 2 is determined by discounting the difference between the forward exchange rates at the end of the reporting period and the contractual forward exchange rates.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Sensitivity to changes in significant unobservable inputs
Investments	Market approach	Comparable transaction price	The estimated fair value would increase if the comparable transaction price is higher
	Net asset value approach	Fair value of individual assets less liabilities of the business ("the Business Net Assets")	The estimated fair value would increase if the fair value of the Business Net Assets is higher
		Marketability discount of 10%	The estimated fair value would decrease if the marketability discount is higher

As at 31 March 2020, the fair value of investment is determined using net asset value and adjusted for the marketability discount (31 March 2019: using the comparable transaction price).

As at 31 March 2020, it is estimated that with other variables held constant, an increase/decrease of 5% (2019: 5%) in each of the unobservable inputs would have increased/decreased the net assets as follows:

	Increase/ (decrease) in unobservable inputs	Increase/(Decrease) in net assets	
		2020 US$ million	2019 US$ million
Comparable transaction price	5%	**–**	0.3
	(5%)	**–**	(0.3)
Fair value of the Business Net Assets	5%	**0.4**	–
	(5%)	**(0.4)**	–
Marketability discount	5%	**(0.1)**	–
	(5%)	**0.1**	–

24 Financial Risk Management and Fair Values (Continued)

(e) Fair values measurement (Continued)

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2020 US$ million	2019 US$ million
Investments:		
At 1 April	**5.4**	5.4
Transfer out *(note)*	**(3.0)**	–
Fair value gain	**5.9**	–
At 31 March	**8.3**	5.4

Note: During the year, the Group exercised the convertible option to convert a convertible instrument into equity interest in an unlisted company and the investee has become an associate of the Group.

25 Commitments

(a) Capital commitments for property, plant and equipment

	2020 US$ million	2019 US$ million
Authorised but not contracted for	**31.9**	29.9
Contracted but not provided for	**15.7**	9.9
	47.6	39.8

(b) Other commitments

Certain wholly-owned subsidiaries of the Group (the "licensees") entered into certain licensing agreements with various third party licensors for the granting of certain rights to use the relevant cartoon characters in the Group's electronic learning products. Under these licensing agreements, the licensees are required to make royalty payments to the licensors, calculated as a percentage of net sales of the relevant character licensed products, subject to certain minimum aggregate royalty payments. The percentage of royalty payable varies over time and between licensed characters. There is no maximum royalty payment. The aggregate minimum royalty payments as at 31 March 2020 amounted to US$4.5 million (2019: US$2.3 million), of which US$1.9 million and US$2.4 million are payable in the financial years ending 31 March 2021 and 2022 respectively and the remaining US$0.2 million is payable before the financial year ending 31 March 2025.

(c) At 31 March 2019, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2019 US$ million
Operating lease commitments	
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:	
Land and buildings	
In one year or less	25.1
Between one and two years	19.8
Between two and five years	25.7
In more than five years	27.5
	98.1

26 Acquisition of a Subsidiary

On 4 May 2018, the Group announced that it had signed an agreement with Pioneer Corporation under which the Group would acquire a manufacturing facility in Malaysia owned by Pioneer Technology (Malaysia) Sdn. Bhd., a subsidiary of Pioneer Corporation.

The transaction was completed on 20 August 2018 with total consideration of approximately US$19.5 million, upon which VTech Malaysia became an indirect wholly-owned subsidiary of the Company.

The acquisition is expected to bring synergistic benefits to the Group. It strengthens the Group's contract manufacturing service position as a leading professional audio equipment manufacturer. The goodwill of US$5.0 million arising from the acquisition is attributable to acquired economies of scale expected from combining the operations of the Group and VTech Malaysia. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition-related costs of US$0.2 million have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the year ended 31 March 2019.

(a) Details of net assets acquired and goodwill in respect of the acquisition of VTech Malaysia at the acquisition date were as follows:

	Net assets acquired and goodwill US$ million
Aggregate consideration	19.5
Less: Estimated fair value of net assets acquired	(14.5)
Goodwill on acquisition	5.0

	Estimated fair value US$ million
Tangible assets	12.4
Stocks	2.6
Deposits and prepayments	0.2
Deposits and cash	1.7
Accruals	(2.4)
Net identifiable assets and liabilities	14.5

	Net cash outflow US$ million
Purchase consideration settled in cash	19.5
Less: Deposits and cash of VTech Malaysia acquired	(1.7)
	17.8

(b) Revenue and profit contribution

Following the acquisition, VTech Malaysia contributed revenue and profit after taxation of US$40.7 million and US$2.0 million respectively for the year ended 31 March 2019.

The effect to the Group's revenue and profit for the year ended 31 March 2019 would not have been materially different from US$65.4 million and US$2.4 million respectively if the above acquisition had taken place on 1 April 2018.

27 Contingent Liabilities

(a) Certain subsidiaries of the Group are involved in litigation arising in the ordinary course of their respective businesses and are involved in certain accusations of infringements of intellectual property. Having reviewed the outstanding claims and taking into account legal advice received, the Directors are of the opinion that even if the claims are found to be valid, there will be no material adverse effect on the financial position of the Group.

(b) In November 2015, the Company experienced a cyber attack in which an intruder gained unauthorised access to some of our databases and servers, and stole certain personal data of our customers around the world. The Company immediately took the affected databases and servers offline to ensure that our customer data was safe from further attack. In addition, the Company has taken steps to report the incidents to a number of governmental authorities and law enforcement authorities in various jurisdictions. The Company has subsequently recovered the personal data of our customers to ensure that copies of information that were disseminated to two other third parties (a journalist and a cyber-security consultant) have been destroyed or taken offline, held securely and not disseminated further. The Company has since then been subject to class action litigation in the US and governmental investigations in various jurisdictions and substantially all of them have been settled. With regard to an investigation that has not yet been finally resolved and taking into account legal advice received, adequate provisions have been made only to the extent that the amounts can be reliably estimated.

(c) As at 31 March 2020, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans and credit facilities of up to US$323.9 million (2019: US$426.9 million). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was US$Nil.

As at 31 March 2020, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

28 Company-level Statement of Financial Position

	Note	**2020 US$ million**	2019 US$ million
Non-current asset			
Investments in subsidiaries	28(a)	**227.5**	227.5
Current assets			
Amounts due from subsidiaries		**383.0**	365.2
Deposits and cash		**0.9**	0.7
		383.9	365.9
Current liabilities			
Amounts due to subsidiaries		**(211.8)**	(184.2)
Creditors and accruals		**(1.1)**	(1.0)
		(212.9)	(185.2)
Net current assets		**171.0**	180.7
Net assets		**398.5**	408.2
Capital and reserves			
Share capital	22(a)	**12.6**	12.6
Reserves	23(b)	**385.9**	395.6
Total equity		**398.5**	408.2

Approved and authorised for issue by the Board of Directors on 18 May 2020.

Allan WONG Chi Yun
Director

PANG King Fai
Director

28 Company-level Statement of Financial Position (Continued)

(a) Principal subsidiaries

Details of the Company's interest in those subsidiaries which materially affect the results or assets of the Group as at 31 March 2020 are set out below:

Name of subsidiary	Particulars of issued and paid up capital	Percentage of interest held by the Group	Principal activity
Incorporated/established and operating in Hong Kong:			
VTech Communications Limited	1,000 ordinary shares 5,000,000 deferred shares	*100	Design, manufacture and sale of electronic products
VTech Electronics Limited	5,000,000 ordinary shares	*100	Design, manufacture and distribution of electronic products
VTech Telecommunications Limited	1,000 ordinary shares 5,000,000 deferred shares	*100	Design, manufacture and distribution of telecommunication products
Perseus Investments Limited	1,000 ordinary shares 1,000 deferred shares	100	Property holding
Valentia Investment Limited	1,000 ordinary shares 1,000 deferred shares	100	Property holding
VTech Finance Limited	1,000,000 ordinary shares	*100	Provision of group financing services
Incorporated/established and operating in Australia:			
VTech Telecommunications (Australia) Pty Limited	AUD1	*100	Sale of telecommunication products
VTech Electronics (Australia) Pty Limited	AUD1	*100	Sale of electronic products
Incorporated/established and operating in Canada:			
VTech Technologies Canada Ltd.	Class A CAD5,000 Class B CAD195,000	*100 *100	Sale of telecommunication and electronic products
Incorporated/established and operating in France:			
VTech Electronics Europe S.A.S.	EUR450,000	*100	Sale of electronic products
Incorporated/established and operating in Germany:			
VTech Electronics Europe GmbH	EUR500,000	*100	Sale of electronic products
VTech IAD GmbH	EUR25,000	*100	Development of broadband connectivity software
Snom Technology GmbH	EUR144,578	*100	Design, manufacture and distribution of telecommunication products
Incorporated/established and operating in Malaysia:			
VTech Communications (Malaysia) Sdn. Bhd.	MYR66,319,533	*100	Manufacture of consumer electronic products
VTech Telecommunications (Malaysia) Sdn. Bhd.	MYR2,500,000	*100	Manufacture of telecommunication and electronic products
Incorporated/established and operating in the Netherlands:			
VTech Electronics Europe B.V.	EUR18,100	*100	Sale of electronic products
Incorporated/established and operating in the People's Republic of China:			
VTech (Dongguan) Communications Limited**	HK$111,200,000	*100	Manufacture of electronic products
VTech (Dongguan) Electronics Limited**	HK$64,800,000	*100	Manufacture of electronic products
VTech (Dongguan) Electronics Industrial Co., Ltd.**	HK$18,725,011	*100	Manufacture and sale of electronic products
VTech (Dongguan) Plastic Products Co., Ltd.**	HK$20,000,000	*100	Manufacture of plastic products
VTech (Dongguan) Telecommunications Limited**	HK$52,500,000	*100	Manufacture of telecommunication products
VTech (Qingyuan) Plastic & Electronics Co., Ltd**	HK$293,000,000	*100	Manufacture of plastic products
VTech Telecommunications (Shenzhen) Limited**	HK$5,000,000	*100	Sale of telecommunication products
VTech Electronics Industrial (Shenzhen) Co., Ltd**	HK$10,000,000	*100	Sale of telecommunication and electronic products

28 Company-level Statement of Financial Position (Continued)

(a) Principal subsidiaries (Continued)

Name of subsidiary	Particulars of issued and paid up capital	Percentage of interest held by the Group	Principal activity
Incorporated/established and operating in Singapore:			
VTech Communications Trading (Singapore) Pte. Ltd.	SGD100	*100	Group procurement services
Incorporated/established and operating in Spain:			
VTech Electronics Europe, S.L.	EUR500,000	*100	Sale of electronic products
Incorporated/established and operating in the United Kingdom:			
VTech Electronics Europe Plc	GBP500,000	*100	Sale of electronic products
Incorporated/established and operating in the United States:			
VTech Electronics North America, L.L.C.	US$22,212,997	*100	Sale of electronic products
VTech Communications, Inc.	US$300,000	*100	Sale of telecommunication products
LeapFrog Enterprises, Inc.	US$100 common stock	*100	Development of electronic products

* *Indirectly held by subsidiary companies*

** *Wholly-owned foreign enterprise*

(b) Associate

Details of the Company's interest in an associate (held indirectly via a subsidiary) as at 31 March 2020 are set out below:

Name of associate	Particulars of issued and paid up capital	Percentage of interest held by the Group	Principal activity
Incorporated/established and operating in the United States:			
Kuku Studios, Inc.	US$3,000,008	*35.96	Production of animated content

* *Indirectly held by subsidiary company*

(c) Controlled structured entity

VTech controls a structured entity which operates in Hong Kong, particulars of which are as follows:

Structured entity	Principal activities
VTech Share Purchase Scheme Trust	Purchase, subscribing, administering and holding shares of the Company for the Share Purchase Scheme for the benefit of eligible VTech employees (note 22(c))

As the VTech Share Purchase Scheme Trust (the "Trust") is set up solely for the purpose of purchasing, subscribing, administering and holding shares of the Company for the Share Purchase Scheme (note 22(c)), the Company controls the Trust pursuant to the trust deed and rules related to the Trust to direct the relevant activities of the Trust and it has the ability to use its power over the Trust to affect its exposure for returns.

29 Material Related Party Transactions

Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company and the five highest paid individuals, is disclosed in note 3 to the financial statements.

30 Possible Impact of Amendments, New Standards and Interpretations issued but not yet effective for the Annual Accounting Period ended 31 March 2020

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2020 and which have not been adopted in these financial statements.

Of these developments, the following relate to amendments that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

31 Accounting Estimates and Judgements

The presentation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

Notes 21 and 24 contain information about the assumptions and their risk factors relating to pension scheme obligations and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

Valuation of stocks

The Group performs regular reviews of the carrying amounts of stocks with reference to stock ageing report, anticipated future selling prices, sales forecasts and management experience and judgement. Based on this review, a write-down of stocks will be made when the estimated net realisable value of stocks decline below their carrying amounts. Due to changes in customers' preferences, actual saleability of goods may be different from estimation and the statement of profit or loss in future accounting periods could be affected by differences in this estimation.

Impairment of assets

The Group reviews internal and external sources of information at the end of each reporting period to identify indications that assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased, except in the case of goodwill. The Group estimates the asset's recoverable amount when any such indication exists. In addition, for goodwill, the Group estimates the recoverable amount to determine whether or not there is any indication of impairment. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and these risks specific to the assets. The preparation of projected future cash flows involves the estimation of future revenue and operating costs which are based on reasonable assumptions supported by information available to the Group. Changes in the estimates would result in additional impairment provisions or reversal of impairment in future years.

Impairment of trade debtors

The Group's loss allowances are based on management's estimate of the lifetime expected credit losses, which is estimated by taking into account ageing of trade debtors and credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the report date. Changes in these estimates could have a significant impact on the loss allowance to be recognised or reversed in future years.

Provision for defective goods returns

The Group recognises provision for expected return claims, which included cost of repairing or replacing defective goods, loss of margin and cost of materials scrapped, based on past experience of the level of repairs and returns. The Group uses all available information in determining an amount that is a reasonable approximation of the costs including estimates based on reasonable historical information and supportable assumptions. Changes in these estimates could have a significant impact on the provision and could result in additional charges or reversal of provision in future years.

32 Non-Adjusting Events after the Reporting Period

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

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

33 Comparative Figures

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

VTech in the Last Five Years

	Consolidated statement of financial position as at 31 March				
	2016 US$ million	2017 US$ million	2018 US$ million	2019 US$ million	**2020** **US$ million**
Non-current assets					
Tangible assets	68.4	72.1	76.2	84.3	**76.0**
Right-of-use assets *(note)*	–	–	–	–	**154.8**
Leasehold land payments *(note)*	4.8	4.5	4.8	4.5	**–**
Intangible assets	–	20.5	19.6	18.6	**17.7**
Goodwill	–	31.1	31.1	36.1	**36.1**
Net assets on defined benefit scheme	–	–	2.7	2.6	**–**
Other non-current assets	10.4	10.1	11.7	11.2	**21.0**
	83.6	138.3	146.1	157.3	**305.6**
Current assets					
Stocks	285.4	324.9	349.9	369.9	**372.6**
Debtors, deposits and prepayments	266.2	325.6	348.0	319.1	**272.1**
Deposits and cash	273.0	268.8	254.4	237.0	**242.5**
Other current assets	2.3	2.4	1.6	3.6	**2.6**
	826.9	921.7	953.9	929.6	**889.8**
Non-current asset held for sale	–	–	2.7	–	**–**
	826.9	921.7	956.6	929.6	**889.8**
Current liabilities					
Lease liabilities *(note)*	–	–	–	–	**(17.9)**
Other current liabilities	(380.4)	(468.6)	(453.1)	(476.5)	**(424.0)**
	(380.4)	(468.6)	(453.1)	(476.5)	**(441.9)**
Net current assets	446.5	453.1	503.5	453.1	**447.9**
Total assets less current liabilities	530.1	591.4	649.6	610.4	**753.5**
Non-current liabilities					
Secured bank loans	–	(1.0)	–	–	**–**
Net obligations on defined benefit scheme	(5.1)	(2.5)	–	–	**(1.8)**
Deferred tax liabilities	–	(3.2)	(3.0)	(3.4)	**(2.9)**
Lease liabilities *(note)*	–	–	–	–	**(147.3)**
	(5.1)	(6.7)	(3.0)	(3.4)	**(152.0)**
Net assets/Total equity	525.0	584.7	646.6	607.0	**601.5**

	Consolidated statement of profit or loss for the years ended 31 March				
	2016 US$ million	2017 US$ million	2018 US$ million	2019 US$ million	**2020** **US$ million**
Revenue	1,856.5	2,079.3	2,130.1	2,161.9	**2,165.5**
Profit before taxation	203.1	200.1	231.0	192.3	**212.3**
Taxation	(21.7)	(21.1)	(24.7)	(21.0)	**(21.6)**
Profit for the year and attributable to shareholders of the Company	181.4	179.0	206.3	171.3	**190.7**
Basic earnings per share (US cents)	72.2	71.3	82.1	68.2	**75.7**

Note: As a result of the adoption of IFRS 16, Leases, with effect from 1 April 2019, the Group has changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 April 2019. After initial recognition of these assets and liabilities, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2020 are stated in accordance with the policies applicable in those years.

Corporate Information

Board of Directors

Executive Directors

Allan WONG Chi Yun
(Chairman and Group Chief Executive Officer)
PANG King Fai
Andy LEUNG Hon Kwong

Non-executive Director

William WONG Yee Lai

Independent Non-executive Directors

William FUNG Kwok Lun
KO Ping Keung
Patrick WANG Shui Chung
WONG Kai Man

Audit Committee

WONG Kai Man *(Chairman)*
William FUNG Kwok Lun
KO Ping Keung
Patrick WANG Shui Chung

Nomination Committee

William FUNG Kwok Lun *(Chairman)*
KO Ping Keung
Patrick WANG Shui Chung
WONG Kai Man
Allan WONG Chi Yun

Remuneration Committee

Patrick WANG Shui Chung *(Chairman)*
William FUNG Kwok Lun
KO Ping Keung
WONG Kai Man

Risk Management and Sustainability Committee

Allan WONG Chi Yun *(Chairman)*
PANG King Fai
Andy LEUNG Hon Kwong
WONG Kai Man
Hillson CHEUNG Hoi
Shereen TONG Ka Hung
CHANG Yu Wai

Company Secretary

CHANG Yu Wai

Registered Office

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Principal Office

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Tai Po, New Territories
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Auditor

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the
Financial Reporting Council Ordinance

VTech Holdings Limited
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