

**VTech Electronics Europe Plc**

**Annual report and financial statements**

**Registered number 2178243**

**31 March 2019**

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## Strategic report

The directors present their strategic report on VTech Electronics Europe Plc for the year ended 31<sup>st</sup> March 2019. As at 31<sup>st</sup> March 2019 the company is a wholly owned subsidiary of a group headed by VTech Holdings Limited.

### Principal activities

The company is principally engaged in the import and distribution of innovative and high quality infant, preschool and above electronic learning products.

### Business Review

The financial year 2019 was the first year of sales without the major toy retailer Toys R Us. Although the retailer had been one of the company's top 5 customers and despite the measures taken by the company to mitigate the impact and the efforts of other retailers to fill the gap in the market sales revenue declined by £4m compared to the financial year 2018.

The gross margin decreased by 2.8% to 25.1% in the financial year 2019. This was mainly due to increased spending on sales programs driven by the tough market conditions. A reduction in advertising and promotional spend helped to maintain operating profit despite a decrease of £1.489m in other operating income as customers switched some of their direct import business to domestic purchases due to concerns over Brexit and the potential impact on exchange rates. Operating profit was unchanged at 3% of turnover.

In standalone products, sales of VTech branded products were down owing to the tough market conditions. Sales of LeapFrog branded products were higher however and VTech maintained its position as number one infant and toddler toy manufacturer in the UK (source: NPD Group, Retail Tracking Service). In platform products, sales were lower for both brands. VTech saw higher sales of Kidizoom Smartwatches, augmented by the launch of the updated version of Touch and Learn Activity Desk. LeapStart 3D, the new interactive learning system combining real books with 3D-like animation was launched during the financial year and achieved good sell through. These gains, however, were insufficient to compensate for lower sales of KidiCom MAX and children's educational tablets.

In calendar year 2018, both brands were awarded several prestigious consumer awards including; a gold award for the VTech 2 in 1 Sports Centre in the Practical Preschool Awards for Toys and Games 0-3yrs and Kidizoom Duo 5.0 won a gold award for Best Portable/Travel Toy in the MadeForMums Awards. The Leapfrog Learning Friends 100 Words Book was the winner in the Education category of the Dads Choice Awards.

### Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as market and credit risk.

#### Market risk

The company's products are sold mainly to retail customers. The performance of the toy market is affected by the general economic climate, overall consumer confidence and the changing retail landscape. In addition the company is open to the risk of sales fluctuations resulting from changing fashion in technology based toys. The company aims to mitigate this by positively marketing the benefits of the company's quality products and continual product development.

#### Credit risk

The company's principal financial asset is trade debtors. High street failures will reduce the traditional bricks and mortar customer base sales level and increase credit risk. In order to manage credit risk the company purchases credit insurance for its whole customer base.

## Brexit

The majority of the company's products are acquired from outside the European Union. Although Brexit will not directly affect the company's supply chain there is a potential short term risk for delays at the UK border. To mitigate this risk the company will manage its inbound stock flow to ensure supply to its customers is not affected.

The company sells less than 10% of its products to other countries within the European Union. The extent to which Brexit will impact on these sales cannot be fully determined until final agreement is reached between the UK government and the other member states of the European Union.

## Future Developments

The company aims to strengthen its market leadership through new product launches. For standalone products, this will be led by the expansion of core learning products under both the VTech and LeapFrog brands. Platform products will see several key items launched in the financial year 2020. The LeapFrog brand will introduce RockIt Twist, a brand new handheld gaming product targeting children aged between four and eight. The LeapStart range will be strengthened by the addition of LeapStart Go. A newly designed version of KidiCom MAX, adding augmented reality games and live face-tracking photo filters, will be introduced in the UK to boost sales of the VTech range.



S Mason  
Company Secretary

3 October 2019

Napier Court  
Abingdon Science Park  
Abingdon  
Oxfordshire  
OX14 3YT

## Directors' report

### Directors

The directors who held office during the year were as follows:

Allan WONG Chi Yun  
PANG King Fai  
Andy LEUNG Hon Kwong  
CHANG Yu Wai  
TONG Ka Hung

### Dividend

The directors do not recommend the payment of a final dividend for the year (2018: Nil).

### Policy and practice on payment of creditors

The company does not follow any code or standard on payment, however it is the company's policy to abide by the terms of payment agreed with its suppliers. At year end there were 23 days (2018: 19 days) purchases in trade creditors.

### Political and charitable contributions

The company made no political contributions during the year (2018: nil). No donations were made to UK charities (2018: nil).

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make them aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

In accordance with Section 487 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



S Mason  
Company Secretary

3 October 2019

Napier Court  
Abingdon Science Park  
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OX14 3YT

## **Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## Independent auditor's report to the member of VTech Electronics Europe Plc

### Opinion

We have audited the financial statements of VTech Electronics Europe Plc ("the company") for the year ended 31st March 2019 which comprise the profit and loss account and other comprehensive income, balance sheet, statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company'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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

#### **The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



11 October 2019

**Simon Baxter (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Arlington Business Park  
Theale  
Reading  
RG7 4SD



**Profit and Loss Account and Other Comprehensive Income**  
*For the year ended 31 March 2019*

	<i>Note</i>	<b>2019</b> <b>£000</b>	<b>2018</b> <b>£000</b>
<b>Turnover</b>	<b>3</b>	<b>61,199</b>	<b>65,212</b>
Cost of sales		<b>(45,827)</b>	<b>(46,993)</b>
<b>Gross profit</b>		<b>15,372</b>	<b>18,219</b>
Distribution costs		<b>(13,011)</b>	<b>(17,136)</b>
Administrative expenses		<b>(3,081)</b>	<b>(3,254)</b>
Other operating income		<b>2,670</b>	<b>4,159</b>
<b>Operating profit</b>		<b>1,950</b>	<b>1,988</b>
Interest payable and similar expenses		<b>(143)</b>	<b>(116)</b>
<b>Profit before taxation</b>	<b>4-6</b>	<b>1,807</b>	<b>1,872</b>
Tax on profit	<b>7</b>	<b>(351)</b>	<b>(507)</b>
<b>Profit for the financial year and other comprehensive income</b>		<b><u>1,456</u></b>	<b><u>1,365</u></b>

The results shown above all relate to continuing activities.

The notes on pages 10 to 19 form part of these financial statements.

**Balance sheet**  
*at 31 March 2019*

	<i>Note</i>	<b>2019</b>	<b>2018</b>
		<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Tangible assets	8	162	217
<b>Current assets</b>			
Stocks	9	10,064	10,397
Debtors	10	8,709	9,848
Cash at bank and in hand		3,279	6,298
		<u>22,052</u>	<u>26,543</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(7,313)</u>	<u>(13,308)</u>
<b>Net current assets</b>		<b>14,739</b>	<b>13,235</b>
<b>Total assets less current liabilities</b>		<b>14,901</b>	<b>13,452</b>
<b>Provisions for liabilities</b>			
Deferred tax liability	12	(18)	(25)
<b>Net assets</b>		<u><b>14,883</b></u>	<u><b>13,427</b></u>
<b>Capital and reserves</b>			
Called up share capital	13	500	500
Profit and loss account		14,383	12,927
<b>Shareholder's funds</b>		<u><b>14,883</b></u>	<u><b>13,427</b></u>

These financial statements were approved by the board of directors on 3 October 2019 and were signed on its behalf by:

  
**TONG Ka Hung**  
*Director*

Registered number: 2178243

The notes on pages 10 to 19 form part of these financial statements.

**Statement of Changes in Equity**  
**For the year ended 31 March 2019**

	Called up Share capital	Profit and loss account	Total Equity
	£000	£000	£000
<b>Balance at 1 April 2017</b>	<u><b>500</b></u>	<u><b>11,562</b></u>	<u><b>12,062</b></u>
 Total comprehensive income for the period	 —	 <u><b>1,365</b></u>	 <u><b>1,365</b></u>
<b>Balance at 1 April 2018</b>	<u><b>500</b></u>	<u><b>12,927</b></u>	<u><b>13,427</b></u>
 Total comprehensive income for the period	 —	 <u><b>1,456</b></u>	 <u><b>1,456</b></u>
<b>Balance at 31 March 2019</b>	<u><b>500</b></u>	<u><b>14,383</b></u>	<u><b>14,883</b></u>

The notes on pages 10 to 19 form part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

VTech Electronics Europe Plc (the "Company") is a public company incorporated, domiciled and registered in England in the UK. The registered number is 2178243 and the registered address is Napier Court, Abingdon Science Park, Abingdon, Oxfordshire, OX14 3YT.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### *Basis of preparation*

These financial statements are prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's parent undertaking, VTech Holdings Limited includes the Company in its consolidated financial statements. The consolidated financial statements of VTech Holdings Limited are available to the public and may be obtained from 23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories, Hong Kong. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.
- Related party transactions
- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

#### *Measurement convention*

The financial statements are prepared on the historical cost basis.

#### *Going concern*

The Company made a profit during the year and has net assets at the year end. The directors have reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Foreign currencies*

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit and loss account..

#### *Basic financial instruments*

##### *Trade and other debtors / creditors*

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. The Company also provides estimated allowances against revenue and accounts receivable for defective products, retrospective volume rebates, promotional allowances and cooperative advertising arrangements in the same period the revenue is recorded. The allowances are estimated based on historical information and customer agreements. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

#### *Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The Company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Leasehold improvements	-	five years
Fixtures and fittings	-	three to five years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

#### *Stocks*

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### *Impairment excluding stocks and deferred tax assets*

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

## Notes (continued)

### 1 Accounting policies (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit ("CGU")).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### *Employee benefits*

##### *Defined contribution plans and other long term employee benefits*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

#### *Provisions*

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

## Notes (continued)

### 1 Accounting policies (continued)

#### *Expenses*

##### *Operating leases*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

##### *Interest receivable and interest payable*

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### *Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

## Notes (continued)

### 1 Accounting policies (continued)

#### Turnover

Turnover, which excludes value added tax, represents the invoiced value of goods and services supplied, after rebates and customer discounts. Turnover is recognised at the time that the risk and title pass to the customer.

### 2 Judgements in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with the corresponding effect in profit or loss, when, and if, better information is obtained.

Significant judgements that management has made in the process of applying accounting policies disclosed herein and that have a significant effect on the amounts recognised in the financial statements relates to the following:

#### Stocks

Management estimates on a monthly basis the net realisable value of stock, taking into account the most reliable evidence at each reporting date. This will include analysing retail sell through data and retail stock levels, the age of the stock item, whether it is included in the current year sales catalogue and changes in consumer buying fashions. This process allows for the early recognition of potential stock issues based on consumer purchasing choices

### 3. Analysis of turnover

	2019 £000	2018 £000
<i>By activity</i>		
Import and distribution of electronic learning products	61,199	65,212
	<hr/>	<hr/>
<i>By geographical market</i>		
United Kingdom	56,883	60,992
Ireland	4,177	4,128
Rest of World	139	92
	<hr/>	<hr/>
	61,199	65,212
	<hr/>	<hr/>

All turnover originates in the United Kingdom. All net assets are held for the import and distribution of electronic learning products.



## Notes (continued)

### 4 Operating profit

	2019 £000	2018 £000
<i>Profit before taxation is stated after charging:</i>		
Depreciation and other amounts written off tangible fixed assets	55	57
Hire of plant and machinery - rentals payable under operating leases	-	-
Hire of other assets – rentals payable under operating leases	1,554	1,405
Net exchange losses	23	65
	<u>          </u>	<u>          </u>

#### *Auditor's remuneration:*

	2019 £000	2018 £000
Audit of these financial statements	38	36
Amounts payable to the auditor and their associates in respect of:		
Other services relating to taxation	10	15
	<u>          </u>	<u>          </u>

### 5 Remuneration of directors

The directors also hold directorships in other companies within the VTech group. These directors' services to the Company do not occupy a significant amount of their time and as such the directors do not consider that they have received any remuneration for their incidental services to the Company during the year ended 31 March 2019 (2018: nil).

### 6 Staff numbers and costs

The average number of persons employed by the Company during the year, analysed by category, was as follows:

	Number of employees 2019	2018
Office and management	9	9
Selling and distribution	27	27
	<u>          </u>	<u>          </u>
	36	36
	<u>          </u>	<u>          </u>

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	1,507	1,395
Social security costs	168	158
Other pension costs	72	62
	<u>          </u>	<u>          </u>
	1,747	1,615
	<u>          </u>	<u>          </u>

## Notes (continued)

### 7 Taxation

#### Analysis of charge in period

	2019 £000	£000	2018 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	355		366	
Adjustments in respect of prior periods	3		143	
	<hr/>		<hr/>	
Total current tax		<hr/> 358		<hr/> 509
<i>Deferred tax</i>				
Origination/reversal of timing differences	(7)		(2)	
	<hr/>		<hr/>	
Total deferred tax		<hr/> (7)		<hr/> (2)
		<hr/>		<hr/>
Tax on profit		<hr/> 351		<hr/> 507

#### Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2018: higher) than the standard rate of corporation tax in the UK (19%, 2018 : 19 %). The differences are explained below.

#### Reconciliation of effective tax rate

	2019 £000	2018 £000
<i>Current tax reconciliation</i>		
Profit before tax	1,807	1,872
	<hr/>	<hr/>
Current tax at 19% (2018: 19%)	343	356
<i>Effects of:</i>		
Expenses not deductible for tax purposes	5	1
Depreciation for the period in excess of capital allowances	-	9
Adjustments in respect of prior periods	3	143
Other timing differences	-	(2)
	<hr/>	<hr/>
Total tax charge (see above)	<hr/> 351	<hr/> 507

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 March 2019 has been calculated based on these rates.

## Notes (continued)

### 8 Tangible fixed assets

	Leasehold improvements £000	Fixtures & fittings £000	Total £000
<b>Cost</b>			
At beginning of year	270	557	827
Additions	-	-	-
Disposals	-	(333)	(333)
	<hr/>	<hr/>	<hr/>
At end of year	270	224	494
	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>			
At beginning of year	54	556	610
Charge for year	54	1	55
Disposals	-	(333)	(333)
	<hr/>	<hr/>	<hr/>
At end of year	108	224	332
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 March 2019	162	-	162
	<hr/>	<hr/>	<hr/>
At 31 March 2018	216	1	217
	<hr/>	<hr/>	<hr/>

### 9 Stocks

	2019 £000	2018 £000
Goods for resale	10,064	10,397
	<hr/>	<hr/>

### 10 Debtors

	2019 £000	2018 £000
Trade debtors	7,736	9,320
Amounts owed by group undertakings	83	55
Other debtors	590	14
Prepayments	300	223
Accrued income	-	236
	<hr/>	<hr/>
	8,709	9,848
	<hr/>	<hr/>

## Notes (continued)

### 11 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	1,514	1,934
Amounts owed to group undertakings	4,220	9,099
Taxation and social security	47	43
Corporation tax payable	-	367
Accruals	1,532	1,865
	<u>7,313</u>	<u>13,308</u>

### 12 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Accelerated capital allowances	-		(18)	(25)	(18)	(25)
Tax (assets) / liabilities	-	-	-	-	-	-
Net of tax liabilities /(assets)						
Net tax (assets) / liabilities	-		(18)	(25)	(18)	(25)

The amount of the net reversal of deferred tax expected to occur next year is £7,000 relating to the reversal of accelerated capital allowances.

### 13 Called up share capital

	2019 £000	2018 £000
<i>Allotted, called up and fully paid</i>		
500,000 Ordinary shares of £1 each	500	500
	<u>500</u>	<u>500</u>

### 14 Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	2019 £000	2018 £000
Less than one year	1,521	1,334
Between one and five years	1,498	2,634
More than five years	-	-
	<u>3,019</u>	<u>3,968</u>

**Notes** *(continued)*

**15 Pension scheme**

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £72,000 (2018: £62,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

**16 Ultimate parent company and parent undertaking of larger group of which the company is a member**

The Company is a subsidiary undertaking of VTech Electronics Europe B.V. incorporated in the Netherlands. The ultimate controlling party is VTech Holdings Limited (incorporated in Bermuda).

The only group in which the results of the Company are consolidated is that headed by VTech Holdings Limited, incorporated in Bermuda. The consolidated accounts of this group are available to the public and may be obtained from:

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