VTech Holdings Limited
HKSE : 303

vtech

40 Years of **Excellence**

Annual Report 2016

Corporate Profile

VTech is the global leader in electronic learning products from infancy through toddler and preschool and the world's largest manufacturer of cordless phones. It also provides highly sought-after contract manufacturing services. Since its establishment in 1976, VTech has been a pioneer in the electronic learning toy category. With state-of-the-art educational expertise and cutting-edge innovation, VTech products provide fun and learning to children around the world. Leveraging decades of success, VTech's diverse collection of telecommunication products elevates the consumer experience through state-of-the-art 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 the Hong Kong Special Administrative Region and state-of-the-art manufacturing facilities in China, VTech currently has operations in 11 countries and regions. It employs approximately 27,000 employees, including around 1,500 R&D professionals in R&D centres in the US, Canada, Germany, Hong Kong and China. 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. The Group's strong brands are 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).

Contents

40 Years of
Excellence

The VTech story started in 1976 with a passion for electronics, a focus we have maintained throughout our 40 years in business. Beginning as a small local company in Hong Kong, through hard work and a commitment to innovation we have grown into a global company with operations in 11 countries and regions.

1976-1985

1976
Allan Wong and Stephen Leung established Video Technology Limited.

1977
Developed our first product, a home TV game console.

In our first year of business, we recorded a turnover of less than US$1 million.

1978
Launched our first portable LED game based on a single-chip microprocessor.

1979
Launched our first portable LCD game.

1980
Launched our first electronic learning product (ELP), Lesson One (book type version).

1981
Launched our first hybrid computer, CreatiVision, featuring an integrated PC and video game console.

Introduced a tabletop version of Lesson One, a highly successful first-generation ELP.

1982
Established our first overseas sales subsidiary in the US.

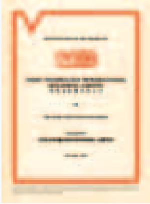
1983
Introduced our first PC range, the Laser 100, based on custom integrated circuit (ASIC) chips designed in-house.

1984
Began to manufacture satellite receivers on a contract manufacturing basis for the US market.

1985
Launched our first Apple II compatible computer, the Laser 3000.

Introduced one of our PCs, the Laser 310, to the China market for the first time.

1986-1995



1986
Listed in Hong Kong in June under the name "Video Technology International (Holdings) Limited" by way of introduction.

Became the largest manufacturer of electronic learning aids sold in the US.

1987
Introduced our first electronic learning aid using a laptop design, Talking Whiz Kid.

Established our first European sales subsidiary in the UK.

1988
Opened our first manufacturing facilities in mainland China, in Houjie town, Dongguan city, Guangdong province.

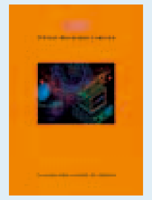
Established a R&D centre in Vancouver, Canada.

Launched Socrates, our first educational video system with wireless remote control.

1989
Entered the preschool market with two very successful products, Small Talk and Little Smart Driver.

1990
Privatised "Video Technology International (Holdings) Limited" in October.

Expanded distribution of our Laser PCs to the US.



1991
Changed our name to "VTech Holdings Limited" and listed on the London Stock Exchange.

Introduced the world's first fully digital 900MHz cordless telephone in the US.

1992
Re-listed on the Hong Kong Stock Exchange, establishing a dual primary listing with London.

1993
Established an American Depositary Receipt programme.

Acquired the Capsela brand of scientific and construction toys.

1994
Launched our first electronic dictionary organiser, the CV6880.

1995
LT84X Series Subnotebook won the grand prize in the Machinery and Equipment Design category at the Hong Kong Awards for Industry.

1996-2005

1996
Became the first in the industry to introduce 900MHz cordless phones at a retail price below US$100 in the US.

Launched our first 1.8GHz (DECT) cordless phone in Europe.

1997
Opened our second manufacturing site in mainland China, in Liaobu town, Dongguan city, Guangdong province.

Divested our PC manufacturing business in Hong Kong and PC distribution network in Europe.

1998
Became the market leader in North America and Europe for ELPs.
The ten best-selling electronic learning aids in the UK and the five best-selling ELPs in the US were all VTech products.

Established a R&D centre in Calgary, Canada.

1999
Completed the development of a 2.4GHz global cordless phone platform.

2000
Acquired Lucent Technologies' consumer phone business, with the right to use the AT&T brand in connection with the manufacture and sale of wireline telephones and accessories.

2001
Following a successful restructuring, we achieved a turnaround in profitability within months.

2002
vtech

Launched a new corporate identity as part of a strategic plan to strengthen our marketing.

Introduced the world's first 5.8GHz cordless phone to the US market.

2003


Launched the world's most advanced 5.8GHz cordless phone handset with full colour LCD display.

2004
Launched the V.Smile TV Learning System, one of the most successful ELPs in our history.

2005
Opened our third manufacturing facilities in mainland China, in Qingyuan city, Guangdong province.

V.Smile was named "The Best Overall Toy of the Year" in the US and won other top global awards.

2006-Present

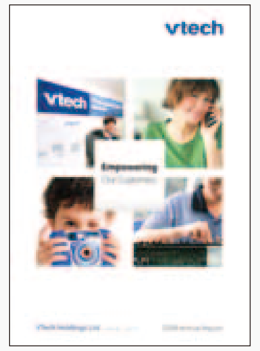
2006
30 Years vtech

Celebrated our 30th anniversary.

BusinessWeek named VTech among the InfoTech 100.

THE INFOTECH 100 BusinessWeek

2007
For the second consecutive year, BusinessWeek named VTech among the top 100 information technology companies worldwide.



2008
Reported our third consecutive year of record revenue and profit.

2009
BusinessWeek ranked VTech 54th globally, and first among Hong Kong companies, in its InfoTech 100 list.

Introduced enterprise phones for small and medium sized businesses in the US.

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2010
February marked the 30th anniversary of our ELPs. We introduced a new logo for ELPs to strengthen our brand.

Became the world's largest manufacturer of cordless telephones.

2011
Launched the first educational tablet for children, InnoTab.

Introduced the world's first CAT-iq 2.0 certified handset, Avant 5000.

2012
Expanded into the hospitality industry and completed installation of SIP phones in the Octavius Tower at Caesars Palace in Las Vegas in March.

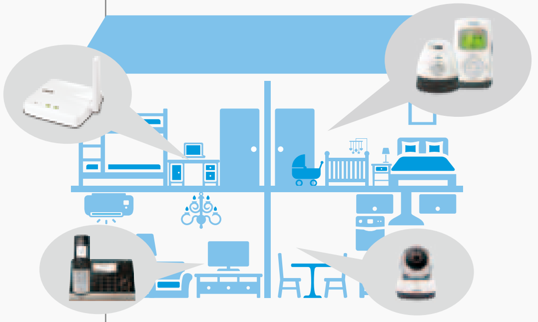
2013
Became the number one market player in the overall Infant Toys category in France, the UK and Germany.

Expanded to the playset category with the introduction of Go! Go! Smart Wheels.

2014
Became the number one manufacturer in the Infant and Preschool Electronic Learning category in the US.

Introduced ErisStation, our first conference phone, with four wireless microphones.

Unveiled wireless monitoring solutions for the connected home at the International Consumer Electronics Show (CES).



2015
Go! Go! Smart Animals Zoo Explorers Playset won the "2015 Infant/Toddler Toy of the Year Award" in the US.

A new factory building built for CMS commenced operations in July, adding 25% to manufacturing capacity.

2016
Acquired LeapFrog Enterprises, Inc., a leading developer of educational entertainment for children.

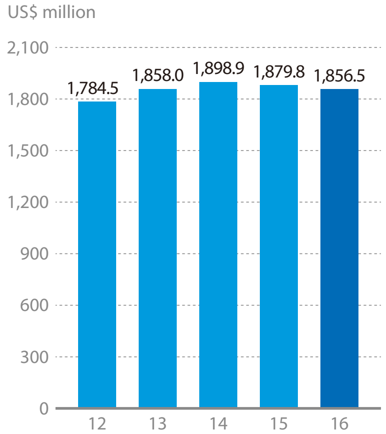
LeapFrog

Financial Highlights

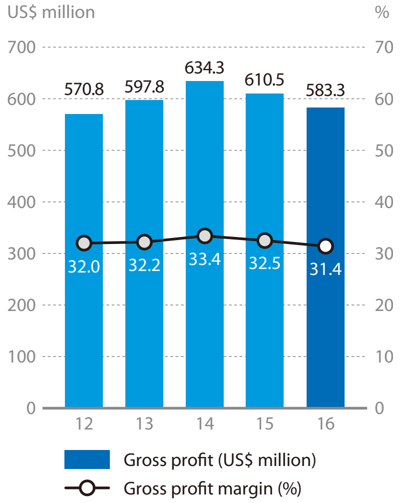
For the year ended 31 March	2016	2015	Change
Operating results (US$ million)			
Revenue	**1,856.5**	1,879.8	-1.2%
Gross profit	**583.3**	610.5	-4.5%
Operating profit	**202.3**	220.1	-8.1%
Profit before taxation	**203.1**	221.7	-8.4%
Profit attributable to shareholders of the Company	**181.4**	198.1	-8.4%
Financial position (US$ million)			
Cash generated from operations	**242.8**	250.4	-3.0%
Deposits and cash	**273.0**	294.2	-7.2%
Shareholders' funds	**525.0**	540.8	-2.9%
Per share data (US cents)			
Earnings per share – basic	**72.2**	78.9	-8.5%
Earnings per share – diluted	**72.2**	78.9	-8.5%
Dividend per share – interim and final	**42.0**	78.0	-46.2%
Other data (US$ million)			
Capital expenditure	**38.3**	30.9	23.9%
R&D expenditure	**56.3**	56.1	0.4%
Key ratios (%)			
Gross profit margin	**31.4**	32.5	-1.1% pts
Operating profit margin	**10.9**	11.7	-0.8% pts
Net profit margin*	**9.8**	10.5	-0.7% pts
EBITDA/Revenue	**12.8**	13.4	-0.6% pts
Return on shareholders' funds	**34.6**	36.6	-2.0% pts

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

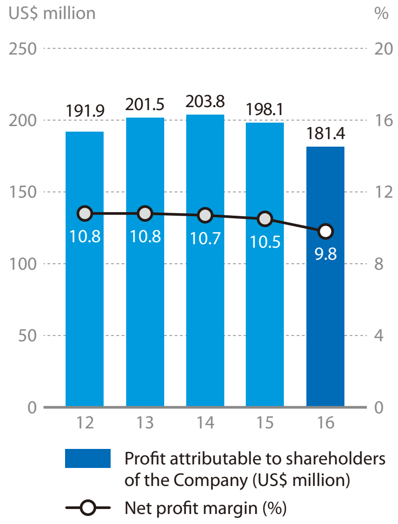
Group Revenue in Last 5 Years



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



Dear Shareholders,

VTech experienced a challenging environment in the financial year 2016, resulting in a decrease in revenue and profitability. The strong US dollar depressed the Group's reported revenue, while the weak economy in Europe affected sales in that region. In addition, the data breach due to the cyber-attack on VTech's Learning Lodge in November 2015 added to the decline in sales and profitability. Looking at the Group's product lines, strength in standalone electronic learning products, commercial phones, other telecommunication products and contract manufacturing services was offset by weakness in platform products and residential phones. In April 2016 the Group completed the acquisition of LeapFrog Enterprises, Inc., a leading developer of educational entertainment for children, paving the way for future growth in electronic learning products.

Results and Dividend

Group revenue for the year ended 31 March 2016 decreased by 1.2% to US$1,856.5 million. The decrease was due to lower revenue in North America and Europe, which offset higher revenue in Asia Pacific and Other Regions.

Profit attributable to shareholders of the Company decreased by 8.4% to US$181.4 million. This fall in profit was partly attributable to the decline in gross profit margin, which resulted from unfavourable currency movements and a change in product mix. Profitability was also impacted by higher administrative and other operating expenses, which included a provision and expenses related to the cyber-attack on the Learning Lodge® app store.

Basic earnings per share fell by 8.5% to US72.2 cents, compared to US78.9 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US25.0 cents per ordinary share, providing a full-year dividend of US42.0 cents per ordinary share, a 46.2% decrease from the US78.0 cents per ordinary share declared in the previous financial year. This represents a reduction of the dividend payout ratio to 58.2%, from 98.9% in the financial year 2015, in order to fund the acquisition of LeapFrog. It also reflects the year-on-year decline of basic earnings per share.

Costs

Costs presented a mixed picture in the financial year 2016 and the gross profit margin declined year-on-year, largely because of strong headwinds from foreign exchange movements and a change in product mix. Because of these factors, cost of material as a percentage of Group revenue was higher, even though material costs decreased slightly from the previous financial year. Direct labour costs declined as VTech improved productivity further, reducing the number of workers by 9.9% year-on-year. This was achieved through automation, process improvement and product optimisation. Manufacturing overhead increased, however, owing to wage inflation in mainland China and the opening of additional CMS manufacturing facilities in July 2015.

Data Breach due to Cyber-attack

The financial year 2016 results were affected by the data breach which occurred as a result of a cyber-attack on VTech's databases in November 2015. During the cyber-attack, an unauthorised party accessed databases containing personal information from users of Learning Lodge, the PlanetVTech website and Kid Connect service. In total over five million parent accounts and related child profiles were affected, though no credit card or other financial information was involved. VTech immediately took steps to suspend all affected websites and services, inform customers and report the incident to the authorities. As a result, Learning Lodge was offline for several weeks during the key holiday period.

In April 2016 the Group completed the acquisition of LeapFrog Enterprises, Inc., a leading developer of educational entertainment for children, paving the way for future growth in electronic learning products.

VTech is strongly committed to protecting customers' data. With the assistance of one of the world's leading cyber security teams, the Group has taken steps to strengthen data protection on Learning Lodge and its connected services. The Group has also worked with law enforcement agencies to recover the stolen customer data and to ensure that copies of the information that were disseminated to two other parties (a journalist and a cyber security consultant) have been destroyed or taken off-line, held securely and not disseminated further.

Our Business

In the financial year 2016, electronic learning products (ELPs) remained the largest product line of the Group, followed by telecommunication (TEL) products and contract manufacturing services (CMS).

Sales via e-tailers and other online channels have continued to grow. Revenue from content downloaded from Learning Lodge declined, however, affected by lower sales of children's educational tablets and by the effects of the cyber-attack.

The financial year 2016 posed challenges for VTech's ELPs business. The strong US dollar depressed reported revenue. Globally, sales of children's educational tablets continued to fall owing to keen competition and a contraction in the market. The cyber-attack on Learning Lodge added to the decline in sales, though the sales of Kidizoom® Smartwatch continued to be strong globally. As a result, the share of ELPs revenue from platform products, including related software, fell to about 16% of total ELPs revenue in the financial year 2016, as compared to approximately 23% in the financial year 2015.

Faced with these challenges, VTech's ELPs continued to gain market share. Globally, VTech consolidated its position as the number one supplier of electronic learning toys from infancy through toddler and preschool[1]. Geographically, ELPs achieved notable overall sales growth in Australia, China and Japan. In contrast to platform products, sales of standalone products posted good growth, with their share of ELPs revenue rising to about 84% from approximately 77% in the previous financial year. Among them, the core infant and toddler lines, as well as the Go! Go! Smart family of products, did particularly well. Adding to the momentum, Kidizoom Action Cam was successfully launched globally. These successes enabled VTech to increase market share further and strengthen its market position. The Group remained the number one infant and toddler toys manufacturer in France, the UK and Germany[2], while in the US it was the number one supplier of electronic learning toys from infancy through toddler and preschool in the calendar year 2015[3].

TEL products faced a difficult market environment for residential phones in the financial year 2016. The fixed-line telephone market has continued to shrink globally, a situation that was compounded by the strong US dollar, which affected sales outside the US. As a result, the revenue from residential phones dropped by 19.4% year-on-year.

[1] *Source: NPD Group, Retail Tracking Service and Global Market Share Estimates by MarketWise Consumer Insights, LLC. Ranking based on total retail sales in the combined toy categories of Toddler Electronic Learning, Toddler Figures, Playsets and Accessories, Preschool Electronic Learning, Electronic Entertainment excluding Tablets and Walkers for the 12 months ending December 2015*

[2] *Source: NPD Group, Retail Tracking Service*

[3] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of Toddler Electronic Learning, Toddler Figures, Playsets and Accessories, Preschool Electronic Learning, Electronic Entertainment excluding Tablets and Walkers for the 12 months ending December 2015*

The weakness in residential phones was partially offset by the continued growth of commercial phones and other telecommunication products. Together, they represented about 27% of total TEL products revenue in the financial year 2016, against approximately 19% in the last financial year. Baby monitors performed particularly well, as VTech gained market share by expanding its distribution channels and extending its geographic reach. The Group also benefited from the further roll out of CAT-iq handsets in France, Germany and Switzerland by the major telecommunication companies, while both ErisStation®, a conference phone with wireless microphones, and ErisTerminal®, a SIP (Session Initiation Protocol) based business phone system, achieved steady growth.

CMS performed well in the financial year 2016, achieving its 14th consecutive year of growth and once again outperforming the global EMS market. Professional audio equipment, hearables, switching mode power supplies and industrial products were the leading product categories. These, together with home appliances, registered sales increases, which offset declines in solid-state lighting, communication products and medical and health products. Sales grew in all four geographical regions.

The good performance from CMS was the result of VTech's ability to attract new customers while securing more orders from existing customers. This in turn reflects the Group's strong reputation, expertise in certain product categories and excellent customer service. The new manufacturing building for CMS that commenced operations in July 2015 has increased capacity by 25% to accommodate future demand.

Acquisition of LeapFrog

On 4 April 2016 VTech completed the acquisition of LeapFrog Enterprises, Inc. (LeapFrog), with the result that it became an indirect wholly-owned subsidiary of VTech. The acquisition was effected by way of a tender offer that had been announced in February 2016. The consideration was approximately US$72 million and the acquisition was financed through internal resources.

LeapFrog is a strong educational toy brand, and complements VTech in geographical strength, product mix, skill sets and operations. VTech is stronger in Europe, while LeapFrog is more US focused. VTech performs well in standalone products, while LeapFrog's platform products are stronger in the US, Canada, the UK and Australia. VTech excels in technology and engineering, whereas LeapFrog has an edge in content development, backed by a strong education team. VTech's manufacturing is done predominantly in its own factories, while LeapFrog out-sourced its entire manufacturing. The Group will make it a priority to consolidate and streamline both companies' back-end operations, including logistics and manufacturing. This presents opportunities for improving the overall cost structure of the combined company. The acquisition will allow VTech to offer the broadest portfolio of products that enhance the education and development of children around the world.

Outlook

Despite a strong US dollar and slow economic growth in both the US and Europe, management expects the Group's revenue to be higher in the financial year 2017. Profitability, however, will be impacted by the integration of LeapFrog, which will make a negative contribution during the financial year 2017.

ELPs revenue is forecast to grow due to a number of positive factors. The acquisition of LeapFrog will result in an immediate sales contribution. Sales of VTech branded standalone products are expected to increase further. The successful baby line and Go! Go! Smart Wheels® will be expanded, while the award-winning Go! Go! Smart Friends® will see the introduction of a princess-themed line that combines traditional role-play with cutting-edge technology, providing a multi-sensory learning experience. The Little Love®/Baby Amaze™ ranges will see more products added to take advantage of good demand. New core infant, toddler and preschool products will also be launched. This will be augmented by the introduction of several new LeapFrog branded learning toys. Geographically, VTech's ELPs sales in China and Australia will grow further, supported by increased sales and marketing efforts, new product launches and the continued growth of online sales.

With the addition of LeapFrog branded products, the combined platform product business will see growth. In the VTech branded line, Touch & Learn Activity Desk™ Deluxe, a three-in-one learning desk designed for children aged between two and five, will be launched globally during the calendar year 2016. The handy communication device for children DigiGo®, which was well received following its launch in Europe in late September 2015, will be rolled out to the US market this year. Similarly, the Group's key European

Despite a strong US dollar and slow economic growth in both the US and Europe, management expects the Group's revenue to be higher in the financial year 2017.

markets will start to launch Kidizoom Smartwatch DX later this year following the successful debut in the US. For the LeapFrog branded line, a new multi-activity learning platform will be launched and will contribute to the overall platform product business. The combined VTech and LeapFrog tablet offerings will give the Group a strong presence in the children's educational tablet category.

The TEL products business is expected to improve, buoyed by higher sales of commercial phones and other telecommunication products. Global product launches, new sales channels and geographic expansion will help to maintain the momentum in baby monitors. Sales of CAT-iq handsets will continue to increase based on the shift from PSTN (Public Switched Telephone Networks) to VoIP (Voice over Internet Protocol) technology. ErisTerminal is gaining customer acceptance and market attention. New models with enhanced features will be rolled out to the US market in the second half of this financial year, while VTech has recently secured a significant new project in Korea. ErisStation will benefit from wider distribution and new SIP-based models designed for large conference rooms that will be introduced in the US market. The Group's wireless monitoring system based on the ULE (Ultra Low Energy) standard will add incremental sales.

The decline in sales of residential phones is expected to moderate. In the US, the Group aims to capture more market share by growing online sales and introducing new products with enhanced Connect to Cell features. In Europe, the business is expected to stabilise, while higher sales in Australia and Japan will support growth in Asia Pacific.

Higher sales are forecast for CMS. Professional audio equipment will grow further as VTech's strong reputation attracts more customers and a new design support approach secures new projects. As category leaders, existing customers are expected to grow their businesses further, resulting in additional orders for the Group. Hearables will grow as existing customers expand their businesses. The successful production of the world's first wireless smart earphones shows VTech's manufacturing capability in the growing area of miniaturisation, enabling VTech CMS to target more business in miniaturised electronic devices. Industrial products will grow as the Group continues to benefit from the consolidation of suppliers by a customer. However, for switching mode power supplies, the change of ownership of a customer creates some uncertainty.

The Group has signed an agreement to acquire the assets from a third party which allow VTech CMS to extend its supply chain vertically and secure the supply of high precision metal tooling and parts. Contribution from this acquisition would start in the fourth quarter of the financial year 2017.

Costs remain a key area of focus for management. Material costs are expected to be largely stable, but labour costs and manufacturing overhead are expected to rise moderately. The Group will therefore continue to offset cost increases through more automation, process improvement and product optimisation.

In closing, I wish to thank all my colleagues for their hard work and dedication over the past year and our business partners for their continuous support.

Allan Wong Chi Yun
Chairman

Hong Kong, 17 May 2016

Financial Overview

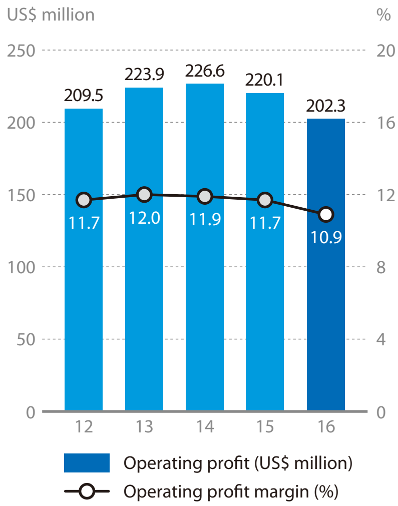
For the year ended 31 March 2016	**2016 US$ million**	2015 US$ million	Change US$ million
Revenue	**1,856.5**	1,879.8	(23.3)
Gross profit	**583.3**	610.5	(27.2)
Gross profit margin	**31.4%**	32.5%	
Total operating expenses	**(381.0)**	(390.4)	9.4
Total operating expenses as a percentage of revenue	**20.5%**	20.8%	
Operating profit	**202.3**	220.1	(17.8)
Operating profit margin	**10.9%**	11.7%	
Net finance income	**0.8**	1.6	(0.8)
Profit before taxation	**203.1**	221.7	(18.6)
Taxation	**(21.7)**	(23.6)	1.9
Effective tax rate	**10.7%**	10.6%	
Profit for the year and attributable to shareholders of the Company	**181.4**	198.1	(16.7)
Net profit margin	**9.8%**	10.5%	

Revenue

Group revenue for the year ended 31 March 2016 reduced by 1.2% to US$1,856.5 million compared with the previous financial year. The decrease in revenue was largely driven by lower sales in North America and Europe, which offset the increase in revenue in Asia Pacific and other regions.

	2016		2015		Increase/(decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**878.3**	**47.3%**	899.5	47.8%	(21.2)	-2.4%
Europe	**795.9**	**42.9%**	812.3	43.2%	(16.4)	-2.0%
Asia Pacific	**129.0**	**6.9%**	117.6	6.3%	11.4	9.7%
Other regions	**53.3**	**2.9%**	50.4	2.7%	2.9	5.8%
	1,856.5	**100.0%**	1,879.8	100.0%	(23.3)	-1.2%

Operating Profit and Operating Profit Margin in Last 5 years



Gross Profit/Margin

Gross profit for the financial year 2016 was US$583.3 million, a decrease of US$27.2 million or 4.5% compared to the US$610.5 million recorded in the previous financial year. Gross profit margin for the year also reduced from 32.5% to 31.4%. It was mainly attributable to the depreciation of foreign currencies against United States Dollar and the change in product mix. Cost of materials as percentage of Group revenue was also higher due to these factors, although the material costs decreased slightly during the financial year 2016.

As for the manufacturing overheads, they increased over the last financial year owing to the higher wages and production capacity. Direct labour costs, however, were lower despite the higher wages in China during the financial year 2016. It was mainly due to the Group's continuous efforts to reduce the workforce through automation and process improvement.

Operating Profit/Margin

Operating profit for the year ended 31 March 2016 was US$202.3 million, a decrease of US$17.8 million or 8.1% compared with the previous financial year. It was mainly due to the decrease in gross profit, which offset the decrease in total operating expenses.

Operating profit margin reduced from 11.7% to 10.9%. It was mainly due to the decrease in gross profit margin, which offset the decrease in total operating expenses as a percentage of Group revenue. The ratio of EBITDA to revenue declined from 13.4% to 12.8%.

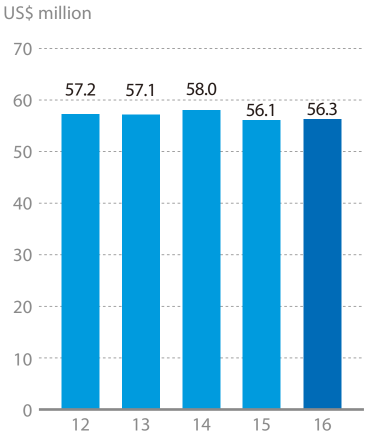
Total operating expenses were US$381.0 million, a decrease of 2.4% over the last financial year. Total operating expenses as a percentage of Group revenue also dropped from 20.8% to 20.5%.

Selling and distribution costs declined from US$268.2 million to US$254.3 million, a decrease of 5.2% compared with the last financial year. It was mainly attributable to the reduced spending on advertising and promotional activities and the lower royalty payments for the licensed products by the Group during the financial year 2016. As a percentage of Group revenue, selling and distribution costs also decreased from 14.3% to 13.7%.

Administrative and other operating expenses increased from US$66.1 million to US$70.4 million over the same period last year. They included provision and expenses related to the cyber-attack. The net exchange loss arising from the Group's global operations in the ordinary course of business was US$0.3 million, same as the last financial year. Administrative and other operating expenses as a percentage of Group revenue increased from 3.5% to 3.8%.

During the financial year 2016, the research and development expenses were US$56.3 million, an increase of 0.4% compared with the previous financial year. Research and development expenses as a percentage of Group revenue was 3.0%, same as the last financial year.

Group R&D Expenditure in Last 5 years



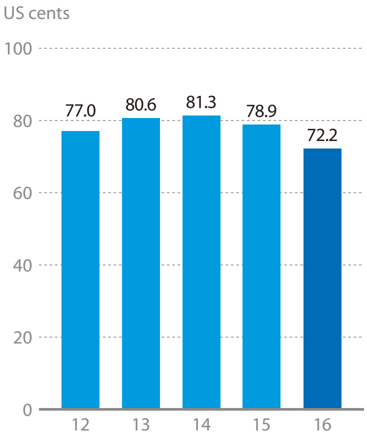
Profit Attributable to Shareholders and Earnings Per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2016 was US$181.4 million, a decrease of US$16.7 million or 8.4% as compared to the last financial year. Net profit margin also reduced from 10.5% to 9.8%.

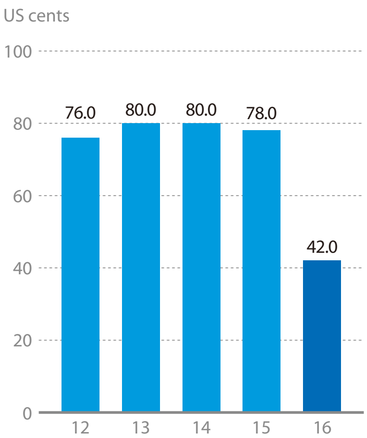
Taxation charges declined from US$23.6 million in the last financial year to US$21.7 million in the financial year 2016. The effective tax rate increased from 10.6% to 10.7%.

Basic earnings per share for the year ended 31 March 2016 were US72.2 cents as compared to US78.9 cents in the previous financial year.

Basic Earnings per Share in Last 5 years



Dividend per Share in Last 5 years



Dividends

During the financial year 2016, the Group declared and paid an interim dividend of US17.0 cents per share, which aggregated to US$42.7 million. The Directors have proposed a Final Dividend of US25.0 cents per share, which is estimated to be US$62.8 million.

	2016 US cents	2015 US cents
Dividend per share		
Interim	**17.0**	17.0
Final*	**25.0**	61.0
Total	**42.0**	78.0

* Final dividend proposed after the end of the reporting period

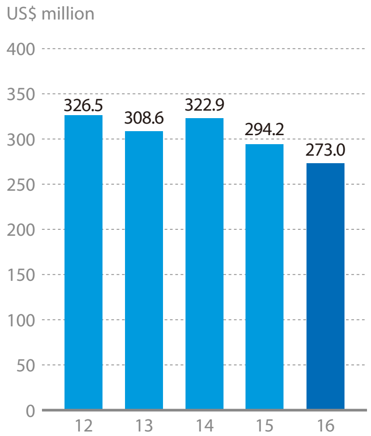
Liquidity and Financial Resources

Shareholders' funds as at 31 March 2016 were US$525.0 million, a decrease of 2.9% from US$540.8 million in the last financial year. Shareholders' funds per share decreased by 2.8% from US$2.15 to US$2.09.

The Group had no borrowings as at 31 March 2015 and 31 March 2016.

The Group's financial resources remain strong. As at 31 March 2016, deposits and cash decreased from US$294.2 million to US$273.0 million, a decrease of 7.2% compared with the last financial year-end-date. It was mainly due to the reduction in cash generated from operating activities and increase in purchase of tangible assets.

Deposits and Cash in Last 5 years
(As at 31 March)



Analysis of Cash Flow from Operations

	2016 US$ million	2015 US$ million	Change US$ million
Operating profit	**202.3**	220.1	(17.8)
Depreciation and amortisation	**35.1**	31.6	3.5
EBITDA	**237.4**	251.7	(14.3)
Gain on disposal of tangible assets	**–**	(0.2)	0.2
Working capital change	**5.4**	(1.1)	6.5
Cash generated from operations	**242.8**	250.4	(7.6)

The Group's cash generated from operations for the year ended 31 March 2016 was US$242.8 million, a decrease of 3.0% as compared to US$250.4 million in the previous financial year. The reduction was mainly attributable to the decrease in EBITDA in the financial year 2016, which offset the lower working capital investment compared with the previous financial year.

Working Capital Change

	Balance as at 31 March 2015 US$ million	Hedging and others US$ million	Working capital change per cash flow US$ million	Balance as at 31 March 2016 US$ million
Stocks	290.2	–	(4.8)	**285.4**
Trade debtors	221.9	–	8.4	**230.3**
Other debtors, deposits and prepayments	38.0	(0.8)	(1.3)	**35.9**
Trade creditors	(186.1)	–	(2.3)	**(188.4)**
Other creditors and accruals	(156.5)	0.4	(0.8)	**(156.9)**
Provisions for defective goods returns and other liabilities	(27.3)	–	(4.2)	**(31.5)**
Net obligations on defined benefit scheme	(3.0)	(1.7)	(0.4)	**(5.1)**
Total working capital	177.2	(2.1)	(5.4)	**169.7**

Stocks as of 31 March 2016 were US$285.4 million, decreased from US$290.2 million as of 31 March 2015. The turnover days also decreased from 96 days to 93 days. The reduction resulted from management's effort to improve stock management.

As at 31 March 2016 and 2015 All figures are in US$ million unless stated otherwise	2016	2015
Stocks	**285.4**	290.2
Average stocks as a percentage of Group revenue	**15.5%**	14.8%
Turnover days	**93 days**	96 days

Trade debtors as of 31 March 2016 were US$230.3 million, increased from US$221.9 million as of 31 March 2015. Debtor turnover days also increased from 57 days to 63 days. The Group has tight management on credit exposure. The overdue balances greater than 30 days accounted for 2.2% of the gross trade debtors as of 31 March 2016.

As at 31 March 2016 and 2015 All figures are in US$ million unless stated otherwise	**2016**	2015
Trade debtors	**230.3**	221.9
Average trade debtors as a percentage of Group revenue	**12.2%**	11.5%
Turnover days	**63 days**	57 days

Other debtors, deposits and prepayments as of 31 March 2016 were US$35.9 million, decreased from US$38.0 million as of 31 March 2015. It was mainly attributable to the decrease in fair value gain on forward foreign exchange contracts in the financial year 2016.

Trade creditors as of 31 March 2016 were US$188.4 million, as compared to US$186.1 million as of 31 March 2015. Creditor turnover days also increased from 85 days to 93 days.

As at 31 March 2016 and 2015 All figures are in US$ million unless stated otherwise	**2016**	2015
Trade creditors	**188.4**	186.1
Turnover days	**93 days**	85 days

Other creditors and accruals as of 31 March 2016 were US$156.9 million, increased from US$156.5 million as of 31 March 2015.

Provisions for defective goods returns and other liabilities as of 31 March 2016 were US$31.5 million, as compared to US$27.3 million as of 31 March 2015.

Net obligations on defined benefit scheme as of 31 March 2016 were US$5.1 million, as compared to US$3.0 million as of 31 March 2015. The increase was mainly due to the re-measurement of net liability of defined benefit scheme.

Treasury Policies

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

Capital Expenditure

For the year ended 31 March 2016, the Group invested US$38.3 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 2017, the Group will incur capital expenditure of US$44.1 million for ongoing business operations. These included the acquisition of the tangible assets from Kenny Precision Products (Shenzhen) Company Limited to extend the vertical integration of VTech CMS, and secure the supply of high precision metal tooling and parts.

In addition, the Group has acquired 100% of the outstanding common stock of LeapFrog subsequent to the financial year 2016 for a consideration of approximately US$72 million. LeapFrog is a leading developer of educational entertainment for children.

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

North America

47.3%

US$878.3 million

▼2.4% year-on-year

Europe

42.9%

US$795.9 million

▼2.0% year-on-year

Other Regions

2.9%

US$53.3 million

▲5.8% year-on-year

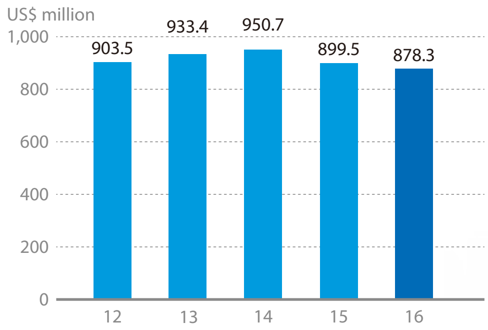
Asia Pacific

6.9%

US$129.0 million

▲9.7% year-on-year

Revenue in North America in Last 5 Years



North America

Group revenue in North America declined by 2.4% to US$878.3 million in the financial year 2016 as lower TEL products revenue offset higher sales of ELPs and CMS. North America remained VTech's largest market, accounting for 47.3% of Group revenue.

ELPs revenue in North America increased by 4.8% to US$314.4 million, led by higher sales of standalone products. In the calendar year 2015, VTech maintained its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[4].

In standalone products, growth was seen in the infant, toddler and preschool categories, with higher sales of the core infant, toddler and preschool learning products, as well as the Go! Go! Smart family of products. Go! Go! Smart Wheels Ultimate RC Speedway™, the latest playset in the family, hit retailer shelves in August 2015. It was included in all the major retailers' hot toy lists for the season. More recently introduced items, such as Kidizoom Action Cam, Baby Amaze and Flipsies™, added incremental growth. Switch & Go Dinos®, being at the end of the current generation's product cycle and with only minimal retailer shelf space support, recorded a sales decline.

Sales of platform products decreased. Although there was good growth in the Kidizoom Smartwatch range, this could not offset declining sales of InnoTab® educational tablets and related software, as this market has continued to contract and competition remains keen. The cyber-attack on Learning Lodge and other VTech websites in November 2015 also impacted sales. The second generation smartwatch, Kidizoom Smartwatch DX, hit the shelves in the US in August 2015 and performed strongly. The Group also rolled out InnoTV™, an educational TV gaming system designed for preschoolers, in the US in October 2015.

TEL products revenue in North America decreased by 10.7% to US$371.4 million. Whilst growth in commercial phones and other telecommunication products continued, it was not sufficient to offset declining sales of residential phones.

Sales of residential phones declined due to the continued contraction of the fixed-line telephone market. Nonetheless, VTech maintained its leading position in the US residential phones market[5] and increased its product placements among retailers.

Within commercial phones and other telecommunication products, baby monitors posted the strongest growth, driven by good sell-through of video models and additional product placements. Sales of commercial phones also rose, supported by demand for VTech's new range of four-line small business phone systems, which has been well-received by the market. The VTech branded ErisStation, a conference phone with wireless microphones, and ErisTerminal, the SIP based business phone system, enjoyed steady sales growth as distribution channels were expanded and the products gained solid traction in the market.

The revenue from CMS in North America increased by 4.9% to US$192.5 million, as higher sales of professional audio equipment, industrial products and home appliances offset lower sales of solid-state lighting, communication and medical and health products.

Sales of professional audio equipment achieved good growth owing to a number of positive factors. A major customer increased orders after resolving excess inventory issues. Several other customers saw higher demand for their products. VTech's strong reputation also attracted new professional audio equipment customers during the financial year 2016. Industrial products benefited from supplier consolidation by a customer, while home appliances received more orders from existing clients. Solid-state lighting, however, was affected by a fall in demand for the customer's products. Lower sales of communication products were recorded from a few existing customers, the reasons being overstocking, poor market response or the end of a product life cycle. The reduction in revenue from medical and health products was due to the change in outsourcing policy of one customer.

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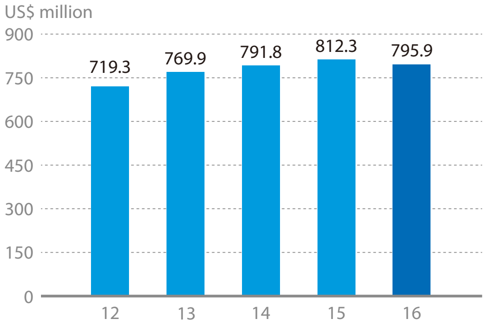
4 *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of Toddler Electronic Learning, Toddler Figures, Playsets and Accessories, Preschool Electronic Learning, Electronic Entertainment excluding Tablets and Walkers for the 12 months ending December 2015*

5 *Source: MarketWise Consumer Insights, LLC*

Revenue in Europe in Last 5 Years



Europe

Group revenue in Europe decreased by 2.0% to US$795.9 million in the financial year 2016, as lower sales of both TEL products and ELPs offset an increase in CMS revenue. Europe was VTech's second largest market, accounting for 42.9% of Group revenue.

ELPs revenue in Europe fell by 10.2% to US$325.5 million. This decline in US dollar terms was driven by the depreciation of the European currencies. Among the Group's key Western European markets, sales in France, the UK, Germany and Spain grew slightly in local currency terms. Despite the tough foreign exchange environment, VTech gained further market share in the calendar year 2015, strengthening its position as the number one infant and toddler toy manufacturer in France, the UK and Germany[6]. The Group also maintained its number one position in preschool electronic learning in France, Germany and Spain[7].

Standalone products saw a decrease in sales. Core infant, toddler and preschool learning products, as well as Switch & Go Dinos, recorded sales declines. However, there was growth in the Toot-Toot family of products and Little Love, while Kidizoom Action Cam and Flipsies brought additional revenue. In the financial year 2016, VTech won four "2015 Grand Prix du Jouet" awards, presented by *La Revue du Jouet* magazine in France. This was the highest number of awards granted to any manufacturer, with Toot-Toot Drivers Super RC Raceway gaining the top "Toy of the Year 2015" award.

In platform products, sales of InnoTab/Storio® children's educational tablets and software contracted further. The market has continued to decline and competition remained keen, while the cyber-attack had a negative impact on sales. Although sales of Kidizoom Smartwatch also experienced a slight decrease, the range continues to win industry awards. In November 2015, Kidizoom Smart Watch Plus was named one of the "Dream Toys 2015 – Toys for Christmas 2015 (Category of Tots Get Busy)" by the UK Toy Retailers Association. In late September 2015, VTech's new multi-function handheld device DigiGo hit the shelves in the Group's key European markets, giving children a handy gadget for text messaging, pictures, videos and music. It has been well-received. The 5" Storio MAX tablets, which were launched in France and Germany, also enjoyed success.

Revenue from TEL products in Europe decreased by 13.3% to US$136.4 million. The sales growth in commercial phones and other telecommunication products was unable to offset fully the decline in sales of residential phones.

Sales of residential phones decreased as the fixed-line telephone market contracted. This was compounded by a weak Euro, which reduced the purchasing power of the Group's customers, leading to a further decline in sales.

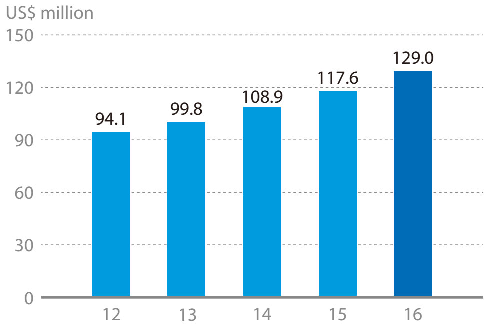
In contrast, commercial phones and other telecommunication products posted good growth. Baby monitors was the best performing sector, driven by higher sales of video models. CAT-iq handsets registered a sales increase, benefiting from their first full-year sales contribution. Sales of integrated access devices (IADs) also grew as customers began shipments of a new generation of products. In addition to the well-established ODM (original design manufacturing) business in Europe, during the financial year 2016 VTech started selling ErisTerminal and ErisStation under the VTech brand in selected European markets, achieving steady growth in both product lines.

CMS revenue in Europe increased by 14.3% to US$334.0 million, with sales rising in all product categories.

Professional audio equipment benefited from being given more projects by existing customers, while new customers also made a sales contribution. Sales of hearables trended higher, as VTech grew its revenue share with a major existing customer, while a new customer offering the world's first wireless smart earphones ramped up orders. Despite the change in ownership of a customer, switching mode power supplies experienced a temporary boost in sales. Sales of home appliances rose owing to more orders from an existing customer.

[6] *Source: NPD Group, Retail Tracking Service*
[7] *Source: NPD Group, Retail Tracking Service*

Revenue in Asia Pacific in Last 5 Years



Asia Pacific

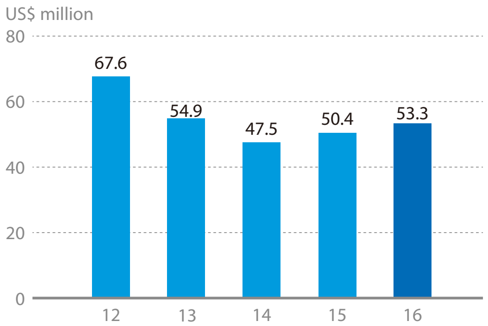
Group revenue in Asia Pacific increased by 9.7% to US$129.0 million in the financial year 2016, as higher sales of ELPs and CMS offset a decline in TEL products. Asia Pacific represented 6.9% of Group revenue.

Revenue from ELPs in Asia Pacific was up 57.9% to US$40.9 million, mainly driven by growth in China, Australia and Japan. In China, there was strong demand for core infant and toddler products, Switch & Go Dinos and Go! Go! Smart Wheels. Growth was further supported by the expansion of distribution channels and higher online sales. Sales in Australia increased significantly as VTech completed the first full fiscal year of conducting sales and marketing through its own local office. The revenue growth in Japan was mainly attributable to the launch of Kidizoom Smartwatch in that market.

TEL products revenue in Asia Pacific declined by 16.3% to US$36.0 million. Sales growth in India, Taiwan and Hong Kong only partially compensated for lower sales in Australia, Japan and China. In Australia, the Group successfully replaced all Telstra branded phones with VTech branded phones across all channels during the financial year 2016, while gaining more placements for its range of baby monitors. In Japan, sales were lower due to delays of new product launches by customers, while in China demand for residential phones was generally weak.

CMS revenue in Asia Pacific rose by 7.0% to US$52.1 million, primarily driven by higher sales of home appliances, hearables and professional audio equipment. In home appliances, a customer closed its own factory and moved all manufacturing to VTech, leading to a significant sales increase. Sales of hearables also rose due to a new product introduction from an existing customer. Professional audio equipment recorded growth as an existing customer launched a new product. Solid-state lighting, however, registered lower sales as the customer faced keen competition from mainland Chinese brands.

Revenue in Other Regions in Last 5 Years



Other Regions

Group revenue in Other Regions, namely Latin America, the Middle East and Africa, grew by 5.8% to US$53.3 million in the financial year 2016. Other Regions accounted for 2.9% of Group revenue.

ELPs revenue in Other Regions decreased by 22.3% to US$11.5 million, as higher sales in the Middle East and Africa were offset by lower sales in Latin America.

TEL products revenue in Other Regions increased by 17.4% to US$41.2 million. Growth was mainly attributable to a sales increase in the Middle East as shipments of IADs rose, offsetting lower sales in Latin America.

CMS revenue in Other Regions was US$0.6 million in the financial year 2016, as compared to US$0.5 million in the previous financial year.

Electronic Learning Products

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

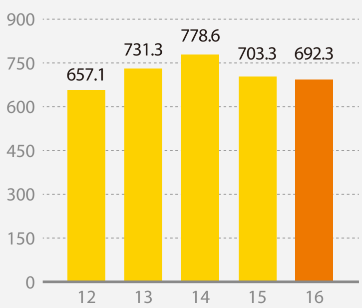
NO.1
supplier of electronic learning toys from infancy through toddler and preschool in the US

NO.1
infant and toddler toy manufacturer in France, the UK and Germany

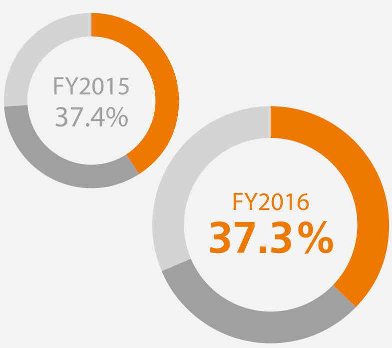
49 million
products shipped in FY2016

78 countries
selling VTech branded ELPs in 25 languages

ELPs Revenue in Last 5 Years

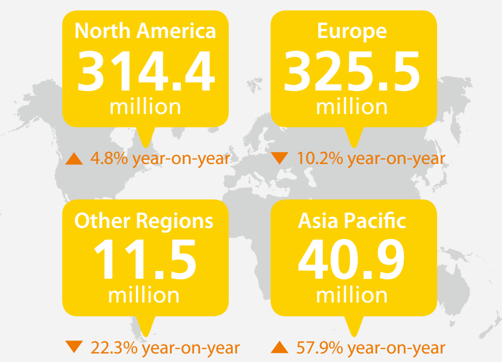


As % of Group Revenue



ELPs Revenue by Region

All figures are in US$ unless stated otherwise



Standalone Products

VTech educational toys are age-appropriate and developmental stage-based.

Infant
0-12 months

Toddler
1-3 years

Preschool
3-6 years

vtech LeapFrog

Core Learning Products

Go!Go! Smart Wheels Go!Go! Smart Animals Go!Go! Smart Friends

Go! Go! Smart Family

Baby Amaze

Baby Amaze / Little Love

Platform Products

Platform products consist of various devices for children, with cartridges, expansion packs and/or downloadable content to enrich play experience.

Kidizoom SMART WATCH DX

Touch & Learn Activity Desk Deluxe

DigiGo

InnoTab MAX

LeapReader Reading and Writing System

LeapFrog epic

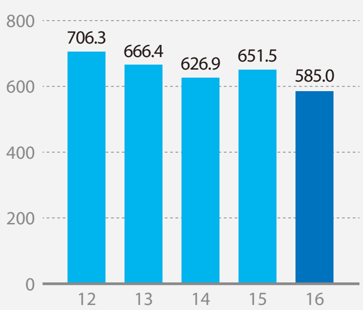
NO.1
cordless phones manufacturer globally

Telecommunication Products

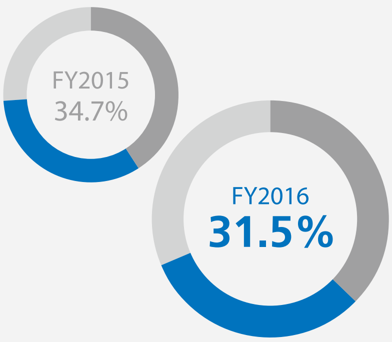
33.5 million
handsets shipped in FY2016

76 countries
selling VTech TEL products

TEL Products Revenue in Last 5 Years

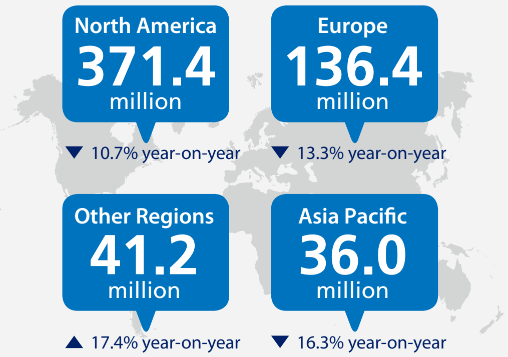


As % of Group Revenue



TEL Products Revenue by Region

All figures are in US$ unless stated otherwise



Residential Phones

VTech residential phones are a perfect blend of design and functionality.

Commercial Phones

Easy to install and set up, VTech commercial phones are designed for small-to-medium sized businesses and the hospitality industry.

DS6771
2-Handset Connect to Cell Answering System with Cordless Headset

ErisStation

CS6919
Cordless Phone System

ErisTerminal

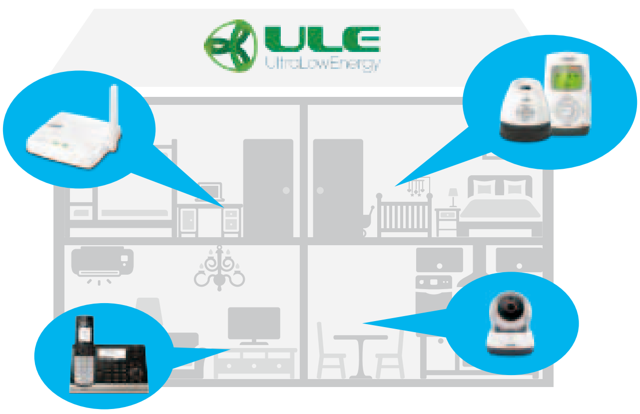
DS6722
Cordless Phone System

Other Product Categories

- **SMB Phone**
- **Hotel Phone**
- **Cordless Headset**

Other Telecommunication Products

Other telecommunication products cover a wide range of products that cater to various needs of home users, making life more comfortable.



Wireless Monitoring System

Safe&Sound Baby Monitor

Baby Soother

Other Product Categories

- **Integrated Access Device**
- **CareLine**
- **CAT-iq 2.0 Certified Handset**

Contract Manufacturing Services

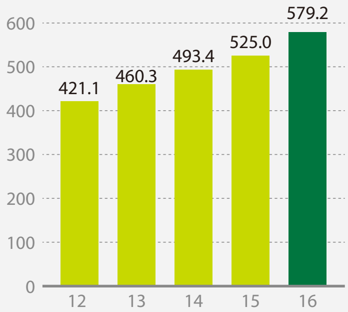
26th
among the world's top 50 EMS providers

Top 50

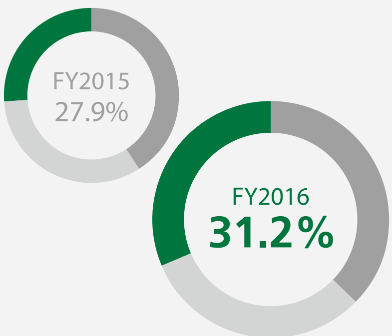
14th
consecutive year of sales growth

10.3%
sales growth in FY2016, outpacing the global EMS market

CMS Revenue in Last 5 Years



As % of Group Revenue



CMS Revenue by Region

All figures are in US$ unless stated otherwise

North America	192.5 million	▲ 4.9% year-on-year
Europe	334.0 million	▲ 14.3% year-on-year
Other Regions	0.6 million	▲ 20.0% year-on-year
Asia Pacific	52.1 million	▲ 7.0% year-on-year

The Group focuses on selected product segments. Below are the top four product categories for CMS:

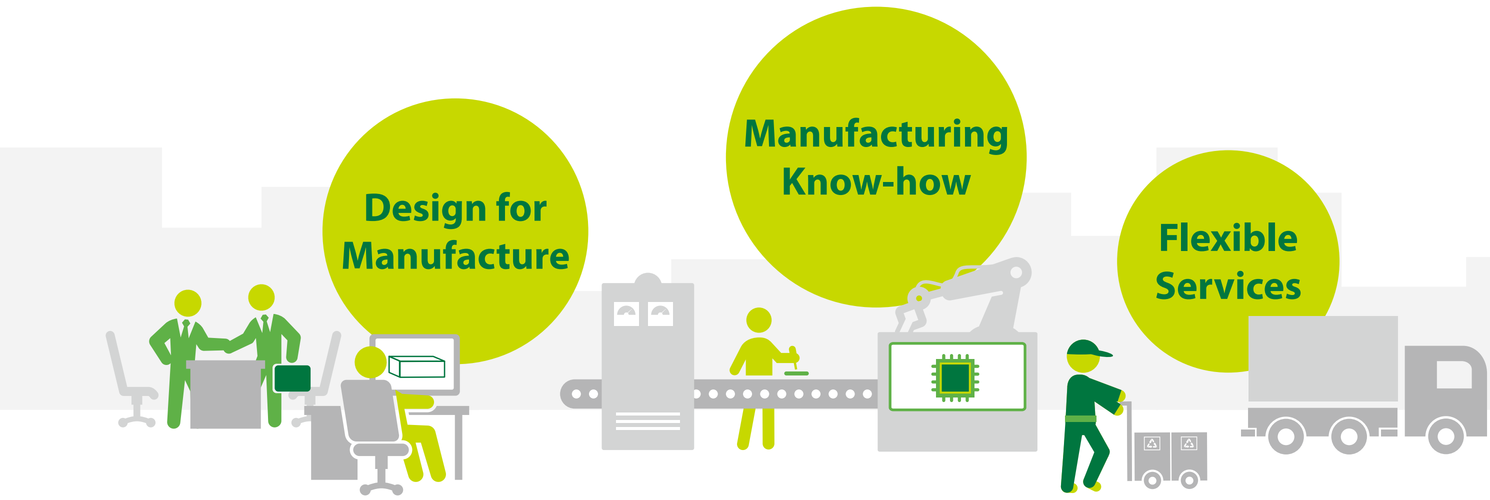
Professional Audio Equipment

Hearables

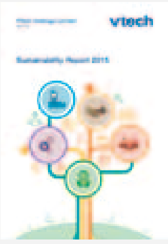
Switching Mode Power Supplies

Industrial Products

VTech CMS's ability to offer DFM (Design for Manufacture), flexible services and manufacturing know-how in a number of product categories is the key to its continued growth and success.



Corporate



Sustainability Efforts

VTech's Sustainability Report 2015 received the "Sustainability Excellence Award" from the Chamber of Hong Kong Listed Companies and the "Best Corporate Governance Disclosure Award 2015" in the category of Sustainability and Social Responsibility Reporting presented by the Hong Kong Institute of Certified Public Accountants, for the second consecutive year.

In the financial year 2016, VTech Holdings Limited became a constituent member of the Hang Seng Corporate Sustainability Benchmark Index and the FTSE4Good Index. VTech is also among the top 100 most sustainable companies in Asia and ranked fifth in Hong Kong according to Channel NewsAsia, CSR Asia and Sustainalytics.

Hang Seng Corporate Sustainability Index Series Member 2015-2016

FTSE4Good

CHANNEL NEWSASIA SUSTAINABILITY RANKING

Community Involvement

The Group encourages its employees to participate in different sports activities such as the Standard Chartered Hong Kong Marathon, Oxfam Trailwalker, Golf Tournament, Sowers Action Challenging 12 Hours and Dragon Boat Race. In the Sowers Action's event, the VTech Sowers Action team won the second runner-up in the 42 km Corporation Team category and the Group was presented the Golden Corporate Participation award. VTech was also the third most committed organisation in the RunOurCity Streetathon 2015. The VTech Dragon Boat Race Team was second runner-up in the mixed team event at the Chow Tai Fook Invitational Race and third runner-up in the women's open race at the Shatin Dragon Boat Race 2015.

In the financial year 2016, the number of VTech volunteers increased to 2,600 and the Group contributed over 18,291 person hours to volunteer community activities. VTech's volunteer team from Liaobu, Dongguan was presented with a "Breakthrough Award" in 2015 by the local Community Healthcare Centre.

Award-winning Annual Report

ARC AWARDS INTERNATIONAL XXIX 2015 WINNER

The VTech Annual Report 2015 received the "Gold Award" in the category of Annual Reports – Print: Electronic Manufacturing in the Galaxy Awards 2015, as well as the "Honors Award" in the category of Traditional Annual Report – Electronics in the 2015 International ARC Awards.

"Caring Company" Recognition

VTech's contribution to the Hong Kong community was recognised by the Hong Kong Council of Social Service and VTech was named a "Caring Company" for the eighth consecutive year.

5 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

ELPs

No. 1 in Infant Toys Category

In the calendar year 2015, VTech strengthened its position as the number one infant and toddler toy manufacturer in France, the UK and Germany[8]. In the US, VTech maintained its position as the largest manufacturer of electronic learning toys from infancy through toddler and preschool[9].

"2015 Grand Prix du Jouet" Awards

In the financial year 2016, VTech won four "2015 Grand Prix du Jouet" awards, presented by *La Revue du Jouet* magazine in France. This was the highest number of awards granted to any manufacturer, with Toot-Toot Drivers Super RC Raceway gaining the top "Toy of the Year 2015" award.

[8] *Source: NPD Group, Retail Tracking Service*

[9] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of Toddler Electronic Learning, Toddler Figures, Playsets and Accessories, Preschool Electronic Learning, Electronic Entertainment excluding Tablets and Walkers for the 12 months ending December 2015*

Kidizoom Smart Watch Plus was named one of the "Dream Toys 2015 – Toys for Christmas 2015 (Category of Tots Get Busy)" by the UK Toy Retailers Association in November 2015.

Other Awards

In the financial year 2016, VTech received over 140 accolades from respected toy and parenting industry experts, toy councils and retailers around the world.

Acquisition of LeapFrog

VTech announced the proposed acquisition of LeapFrog in February 2016. The acquisition was effected by way of a tender offer and was completed on 4 April 2016, with the result that LeapFrog became an indirect wholly-owned subsidiary of VTech.

TEL Products

VTech Branded Products Launched in More Markets

In the financial year 2016, the Group launched the VTech branded ErisTerminal and ErisStation in selected European markets. The Group also successfully replaced all Telstra branded phones with VTech branded phones across all channels in Australia.

Product of the Year

The ErisStation VCS704 conference phone with four wireless microphones won the "2015 Communications Solutions Product of the Year Award" presented by TMC, a global integrated media company.

Award-winning Baby Monitors

The Group started selling VTech branded baby monitors in the UK, with the Full Colour Video and Audio model VM312 winning a "Silver Award" from *Right Start* magazine. In the US, the VM343 Pan & Tilt model won the "Silver Award" in the category of Monitors in the Prima Baby Awards 2016 from *Prima Baby* magazine.

CMS

A Global Top 50 EMS Provider

VTech Communications Limited was ranked 26th among the world's "Top 50 EMS Providers in 2015" in *Manufacturing Market Insider* magazine.

Service Excellence

VTech Communications Limited received a "Best Supplier" award and two "Outstanding Supplier" awards from customers in the area of professional audio equipment, and a "New Product Development Award" from an industrial products customer.

New Factory Building

A new factory building for CMS commenced operations in July 2015, increasing manufacturing capacity by 25%.

Acquisition

The Group has signed an agreement to acquire the assets from a third party which allow VTech CMS to extend its supply chain vertically and secure the supply of high precision metal tooling and parts.

Sustainability

VTech's sustainability vision 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.

VTech published its first Sustainability Report for the financial year 2013. 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 toward the societies and environment in which we operate. VTech has made a remarkable progress in FY2016. We are honoured that our Sustainability Report 2015 received the "Sustainability Excellence Award" from the Chamber of Hong Kong Listed Companies (CHKLC), and the "Best Corporate Governance Disclosure Award 2015" in the category of Sustainability and Social Responsibility Reporting presented by Hong Kong Institute of Certified Public Accountants (HKICPA) for the second time in two consecutive years. These prestigious awards are great recognition of our efforts and achievements on sustainability.

Additionally, we are included as constituent members in the Hang Seng Corporate Sustainability Benchmark Index and FTSE4Good Global Index[10] in FY2016. VTech is also among the top 100 most sustainable companies in Asia and ranked 5th in Hong Kong by Channel NewsAsia, CSR Asia & Sustainalytics.

In our Sustainability Report 2016, we not only continued to follow the Core option of the Global Reporting Initiative (GRI) Sustainability Reporting G4 Guidelines (G4 Guidelines) and its principles of balance, comparability, accuracy, timeliness, clarity and reliability, but also made reference to the updated Stock Exchange of Hong Kong Limited (the Stock Exchange) Environmental, Social and Governance (ESG) Reporting Guide (ESG Guide)[11] to define our report content.

VTech is also strongly committed to protecting the data of our customers. In November 2015, we 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. In order to ensure that our customer data would be safe from further attack, we have taken immediate actions to suspend all the websites and services, inform the affected customers and report the incidents to a number of governmental authorities. With the assistance of one of the world's leading cyber security firms, we have also further strengthened our data protection and network security measures.

Our sustainability strategies and efforts continue to focus on five key areas – product responsibility and innovation, environmental protection, workplace quality, sustainable operating practices and community investment. We have also engaged with our stakeholders by conducting materiality assessment surveys to identify and address their material issues and concerns on our sustainable development.

We have established a strong foundation for our sustainable growth. Moving forward, with our determination and commitment toward sustainability, we will continue to implement comprehensive programmes to achieve our long-term sustainability targets in FY2020. 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 2016 are available on www.vtech.com/en/sustainability/.

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[10] *FTSE4Good Index is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards*

[11] *Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited*

Sustainability Management

At VTech, the Risk Management and Sustainability Committee (RMSC) is chaired by Dr. Allan WONG Chi Yun with Dr. PANG King Fai, Mr. Andy LEUNG Hon Kwong, Mr. WONG Kai Man, Ms. Shereen TONG Ka Hung and Mr. CHANG Yu Wai, as members – a combination of executive Directors, independent non-executive Directors and senior management.

RMSC provides 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 key areas across the Company.

Risk Management and Sustainability Committee

Sustainability Sub-Committees

Product Responsibility & Innovation

- Design products for the well-being of people and for the benefits of society
- Design products to ensure that they are of good quality and compliant with the highest safety standards
- Incorporate sustainability concepts into our product design

Environmental Protection

- High Performance Production Chain – maximise our resources efficiency and improve productivity
- Green Manufacturing Practice – minimise the environmental impacts from our operations
- Sustainable Logistic Chain – improve operational efficiency and reduce carbon emissions throughout the transportation process

Workplace Quality

- 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
- Provide a supportive, pleasant and healthy environment for our employees

Sustainable Operating Practices

- Business Continuity Management – identify and mitigate our potential operational risks and increase our resilience capability
- Sustainable Supply Chain Management – manage our supply chain in a socially and environmentally responsible manner and source from approved suppliers who meet VTech's Corporate Social Responsibility requirements
- Climate Change Strategy – minimise the carbon emissions from our operations, and work closely with our suppliers and customers through enhancing our environmentally friendly product designs and sustainable operating practice

Community Investment

- Use our expertise and resources to develop community investment programmes 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 issues identified by our stakeholders during the engagement process. An issue is classified as "material" when it substantially affects our long-term commercial or operational viability, with material impacts from economic, environmental or social aspects. 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 GRI G4 Guidelines.

Sustainability Strategies and Activities

Product Responsibility & Innovation

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.

Addressing our customers' needs is our primary responsibility in the stage of product design. We continuously use our technological expertise to help improve the health and safety of our customers, which is our number one objective. Our baby monitor series and wireless monitoring system with Ultra-Low-Energy (ULE) standard are the principal examples. VTech also uses its global leadership position in electronic learning products to develop high-quality and innovative educational products that inspire children's creativity through fun and smart play. In order to stay in harmony with the environment, we also incorporate the eco-design principles into our products and launch many eco-friendly products. For examples, we have Digital European Cordless Telecommunications (DECT) cordless phones with Blue Angel eco-label, the new level VI power adaptor with Energy Star eco-label, and energy monitoring device manufactured by our VTech CMS.

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.

Our products are also designed to minimise the environmental impact throughout the whole product life cycle from cradle to grave. We continue to use the most eco-friendly materials in our products and minimise the usage of resources and materials in the manufacturing process.

Environmental Protection

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, we have improved our resources efficiency and productivity while maintaining our green manufacturing practice. 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 our Green House Gas (GHG) emissions.

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 management 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.

High performance production chain and automation process

We have continuously worked with different government bodies to minimise the environmental impact of our production facilities. Our TEL products manufacturing site was awarded the "Hong Kong – Guangdong Clean Production Partners" under the scheme jointly launched by the Hong Kong Productivity Council and the Guangdong Provincial Government in 2012. It was also recognised as the "Clean Production Enterprise in Guangdong Province" by the Guangdong Provincial Government and "Dongguan Environmentally Friendly Enterprise" by the Dongguan, Guangdong Province Environmental Protection Bureau in China. In FY2016, our TEL products manufacturing site was rewarded with credit for participation in the energy programme launched by the Dongguan Economy & Information Technology Bureau. In addition, the 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 have also 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.

The key environmental impacts from VTech's operations relate to energy and water consumption, waste production and logistics. 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

In order to meet the above requirement 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.

Workplace Quality

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. To ensure that our facilities operate with the highest international standards on social responsibility, health and safety, all VTech manufacturing facilities are certified with the international Occupational Health and Safety Management Systems (OHSAS 18001) and Social Accountability (SA 8000), and ELPs with ICTI CARE (Caring, Awareness, Responsible, Ethical) process 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 – "**C**ommunication and Staff Relations", "**A**dvancement in Careers", "**R**espect of Labour and Human Rights", and "**E**nvironment 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. In FY2016, our Staff Association continued to organise various activities including sports, leisure, social events and outing for our employees.

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. 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

RunOurCity Streetathon

VTech Dragon Boat Team

Living environment and recreational facilities

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. All VTech manufacturing facilities comply with national and international health and safety standards as evidenced by our certification to OHSAS 18001. We also have Employee Health and Safety (EHS) teams at all our factories 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, we are pleased to report that our loss of working hours and lost hour rate per working hours in FY2016 have reduced by approximately 23.2% and 16.4% respectively compared with FY2015, and we did not have any work related fatality case.

The majority of employees in our 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, food laboratory and recreational facilities at our manufacturing sites in FY2016.

VTech Trailwalker Team

Sustainable Operating Practices

VTech has three core policies and systems to ensure that we have a sustainable operating practice throughout the Company. We have "Business Continuity Management" programme to identify and mitigate our potential operational risks, and increase our resilience capability to resume our operations in an effective and timely manner. For the supply chain management which is crucial for our 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 CSR requirements.

As an environmentally conscious and sustainable company, VTech also recognises that climate change could create uncertainties in our business development. We have developed our "Climate Change Strategy" to assess how climate change could affect our business operations, and minimise the potential impacts on our sustainable growth. As part of our climate change strategy, we are dedicated to reducing our GHG emissions by minimising the energy consumption from our daily operation through our various energy and resources saving programmes. We have also been working closely with our suppliers and customers to reduce the carbon emissions through enhancing our environmentally friendly product designs, green logistic practices and carbon reduction programmes.

Community Investment

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 families and society.

Our China and Hong Kong voluntary teams frequently participate in various types of voluntary services. In FY2016, the number of volunteers has increased to 2,600 and we have contributed over 18,291 hours in volunteering activities. VTech has been awarded the "Caring Company" by The Hong Kong Council of Social Service for the eighth consecutive year in recognition of our continuous contribution to the Hong Kong community. Our voluntary team in Liaobu, Dongguan, China was also presented with the breakthrough award by the local Community Healthcare Centre in 2015.

Toys donation for China remote area

Visiting schools in China remote area

Rice distribution to people in need

VTech also sponsors our staff to take part in different sport activities organised by the local charities. In FY2016, our employees participated in the Oxfam Trailwalker 2015, Sowers Action Challenging 12 Hours 2015, RunOurCity Streetathon 2015 and Standard Chartered Hong Kong Marathon 2016. Our Sowers Action team won the 2nd runner-up in the category 42 km Corporation Team. We were the 3rd most committed organisation in the RunOurCity Streetathon 2015 and were presented the Golden Corporate Participation award in Sowers Action Challenging 12 Hours 2015.

We also collaborate with local charities to support various charitable activities around the world. In FY2016, we have made charitable and other donations of over US$302,000 in FY2016.

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.

VTech is a keen supporter for developing a healthy and green community. We not only dedicate our efforts to minimise the environmental impacts from our operations, but also participate in different community events to develop and promote a healthy and green lifestyle within VTech and the community. In FY2016, our volunteers teamed up with various organisations to redistribute the surplus food for people in need, raise the awareness of climate change impact in the local community and encourage green lifestyle across the Company.

Sowers Action Challenging 12 Hours 2015

Earth Hour Pledge

Caring Company

Investor Relations

VTech aims to develop long-term relationships with shareholders and investors. The Group approaches this by communicating with both institutional and retail investors on a regular basis, to ensure they have a comprehensive picture of VTech's business strategies, current operations and outlook.

Shareholder Value

The Group's goal is to create long-term sustainable value for shareholders. VTech's commitment to this goal has been demonstrated over the years through share price performance, dividend payments and index recognition.

Share Price Performance

In the financial year 2016, the highest closing price for VTech shares was HK$110.80 (6 May 2015) and the lowest closing price was HK$75.15 (20 January 2016). The share price performance in the last ten years is shown in the adjacent chart.

VTech Share Price in Last 10 Years (1 April 2006 – 31 March 2016)

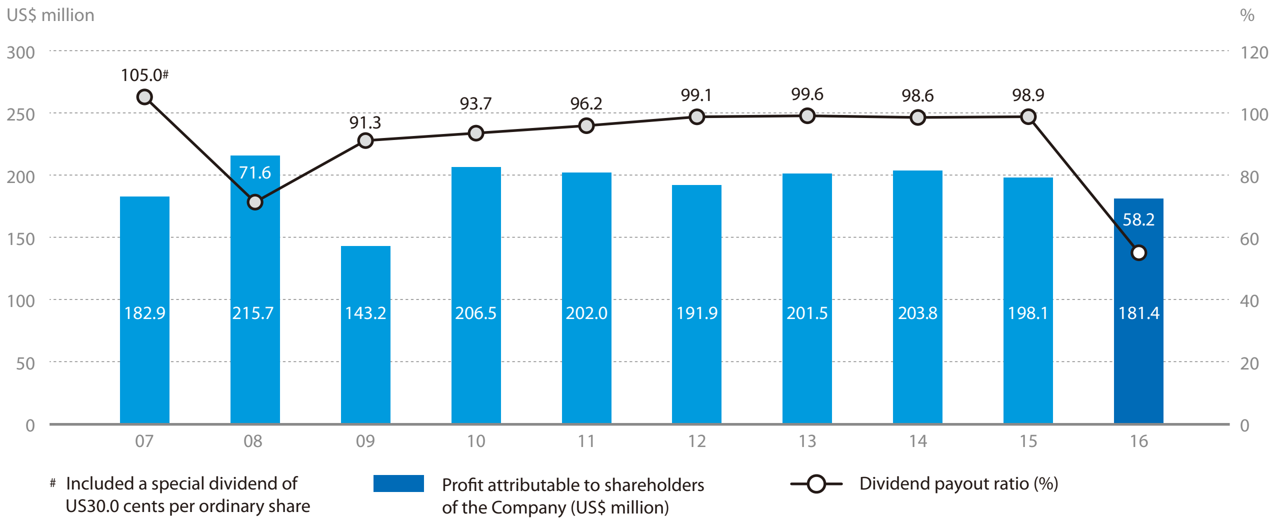
Source: Bloomberg Finance L.P.

Dividend Payments

The Group's dividend payout ratio is linked to its operating earnings performance, financial position and future investment opportunities. The dividend payout ratio in the financial year 2016 amounted to 58.2% of the profit attributable to shareholders of the Company, against 98.9% in the financial year 2015.

VTech has delivered sustainable returns to shareholders over the past ten years.

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. The Group was also added as a constituent stock of the Hang Seng Corporate Sustainability Benchmark Index and FTSE4Good Index, in recognition of the Group's good performance in environmental, social and corporate governance.

Corporate Governance

VTech believes that good corporate governance underpins its efforts to execute strategy, generate shareholder value and safeguard shareholders' long-term interests.

To ensure sound corporate oversight, the majority of the Board is composed of independent non-executive directors. The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee and a Risk Management and Sustainability Committee, each with defined terms of reference. All directors and employees are required to abide by the Company's Code of Conduct.

A Whistleblowing Policy facilitates the raising of matters of serious concern by employees in confidence without the fear of recrimination. A Continuous Disclosure Policy aims to ensure full compliance with the requirements regarding the disclosure of inside information under the Securities and Futures Ordinance and the Listing Rules.

The full corporate governance report is set out on pages 33 to 37 of this Annual Report.

Investor Communications

All of the Group's investor communications activities are governed by a Shareholders Communication Policy, which is available on the Group's website. It sets out procedures for providing shareholders and investors with equal and timely access to Company information.

The Group makes every effort to maintain an open dialogue with shareholders and potential investors. We listen carefully to all views expressed and keep stakeholders fully informed of material developments through various channels that include:

- Analyst briefings on the Group's interim and annual results, with 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 in China
- An easily accessible Investors section on the corporate website, containing all key information
- A designated email for investors that makes communication easier

Investors visiting VTech booth at the Hong Kong Electronics Fair (Autumn Edition)

Financial Calendar

Closure of Register of Members – Annual General Meeting	2016 Annual General Meeting	Closure of Register of Members – Payment of Final Dividend
12 – 15 July 2016 (both days inclusive)	**15 July 2016**	**21 July 2016**

Payment of Final Dividend	2016/2017 Interim Results Announcement	FY2017 Annual Results Announcement
1 August 2016	**November 2016**	**May 2017**

Listing

Shares of VTech Holdings Limited are listed on The Stock Exchange of Hong Kong Limited. The Company is a constituent of the Hang Seng High Dividend Yield Index, Hang Seng Corporate Sustainability Benchmark Index and FTSE4Good Index.

Stock Code

The Stock Exchange of Hong Kong Limited: 303

Share Information

Board lot: 100 shares

Issued shares as at 31 March 2016: 251,182,133 shares

Dividend

Dividend per ordinary share for the year ended 31 March 2016

- Interim dividend: US17.0 cents per share
- Final dividend: US25.0 cents per share

Share Registrars

Principal

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
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Tel: (852) 2862 8628
Fax: (852) 2865 0990
Email: hkinfo@computershare.com.hk

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Fax: (852) 2680 1788
Email: investor_relations@vtech.com

Website

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 Listing Rules. Throughout the year ended 31 March 2016, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviations from code provisions A.2.1 and A.6.7 of the Code as described below.

Under code provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Dr. Allan WONG Chi Yun has the combined role of Chairman and Group Chief Executive Officer. 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 independent non-executive directors form the majority of the Board, with four out of seven of the directors of the Company (the "Directors") being 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.

Under code provision A.6.7 of the Code, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Dr. Patrick WANG Shui Chung was unable to attend the annual general meeting of the Company held on 15 July 2015 due to his other prior business engagement. However, the Board believes that the presence of other independent non-executive Directors at such general meetings has allowed the Board to develop a balanced understanding of the views of shareholders.

In May 2015, the charters of the Audit Committee and the Risk Management and Sustainability Committee were updated to incorporate the new code provisions in the revised Code relating to the risk management and internal control effective from 1 January 2016.

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

Board of Directors

The Board currently comprises three executive Directors 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. 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 annually. Their names and brief biographies are set out on page 38 of this Annual Report.

Appointment and Re-election of Directors

All Directors are appointed for a specific term of three years and are required to submit themselves for re-election at least once every three years under the Company's Bye-laws. In accordance with the Company's Bye-laws, each new Director appointed by the Board during the year shall hold office until the next annual general meeting and thereafter the same Director, if re-elected, shall be subject to retirement by rotation. There exists no relationship among Board members and senior management, including financial, operational, family or other relevant material relations.

Independence of Independent Non-executive Directors

The Board has received from each independent non-executive Director a written annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board considers that the four independent non-executive Directors, being the majority of the Board, are independent in character and judgement and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

Any further reappointment of an independent non-executive Director who has served the Board for more than nine years will be subject to separate resolution to be approved by shareholders.

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 are not restricted to, deliberation of business plans, risk management, internal control, preliminary announcements of interim and final results, dividend policy, annual budgets, major corporate activities such as material acquisitions and disposals, and connected transactions.

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.

Four Board meetings at approximately quarterly intervals are scheduled with other meetings held as required. All Directors have access to the advice and services of the company secretary of the Company (the "Company Secretary") and independent professional advice may be sought by the Directors if required.

The attendance of individual Directors at Board Meetings (BM), Audit Committee Meetings (ACM), Nomination Committee Meeting (NCM), Remuneration Committee Meetings (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)*	5/5	–	1/1	–	2/2	1/1
PANG King Fai	5/5	–	–	–	2/2	1/1
Andy LEUNG Hon Kwong	5/5	–	–	–	2/2	1/1
Independent Non-executive Directors						
William FUNG Kwok Lun	4/5	1/2	1/1	2/2	–	1/1
Michael TIEN Puk Sun	5/5	2/2	1/1	1/2	–	1/1
Patrick WANG Shui Chung	3/5	–	1/1	–	–	0/1
WONG Kai Man	5/5	2/2	1/1	2/2	2/2	1/1

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

Board Committees

The Board has established an Audit Committee, a Nomination Committee, a Remuneration Committee, and a Risk Management and Sustainability Committee, each with defined terms of reference which are no less exacting than those set out in the Code.

Audit Committee

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun as members. All of the members are independent non-executive Directors. It has been established to assist the Board in fulfilling its overseeing responsibilities for 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.

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 Chief Compliance Officer, the 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:

- audited Group's consolidated financial statements and reports for the year ended 31 March 2015;
- report from the external auditor for the year ended 31 March 2015;
- corporate governance report in the 2015 Annual Report;
- unaudited Group Interim Financial Report for the six months ended 30 September 2015 in the 2015/2016 Interim Report;
- report from the external auditor based on limited agreed-upon procedures on the unaudited Group Interim Financial Report for the six months ended 30 September 2015 in the 2015/2016 Interim Report;
- corporate governance section in the 2015/2016 Interim Report;
- accounting principles and practices adopted by the Group;
- appointment of the external auditor and its remuneration;
- 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 Directors and senior management;
- 2015 Sustainability Report;
- updates on the new changes to the Code and revised Audit Committee Charter; and
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

In addition, the Audit Committee reviewed the Company's responses to cyber attack and implementation of data security measures. The Company has been subject to class action litigation in the US and governmental investigations in various jurisdictions. As the investigations are still in the early stages and taking into account legal advice received, the Audit Committee is satisfied that adequate provisions have been made only to the extent that the amounts can be reliably estimated.

On the date of this Annual Report, the Audit Committee met to review the audited Group's consolidated financial statements and reports for the year ended 31 March 2016 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The financial results for the year ended 31 March 2016 have been reviewed with no disagreement by the Audit Committee.

In addition to the above, the Audit Committee assists the Board in meeting its responsibilities for maintaining an effective system of internal control during the financial year. It reviews 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.

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 of the Group continued to be effective and adequate.

The Audit Committee has also been given the responsibility to oversee 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 regarding this.

Nomination Committee

The Nomination Committee is chaired by Dr. William FUNG Kwok Lun with Mr. Michael TIEN Puk Sun, Dr. Patrick WANG Shui Chung, Mr. WONG Kai Man and Dr. Allan WONG Chi Yun as members. The majority of the members of the Nomination Committee are independent non-executive Directors. It is responsible for reviewing the structure, size and diversity of the Board, and identifying and nominating candidates for appointment to the Board such that it has the relevant blend of skills, knowledge and professional experience. Candidates for appointment as Directors may 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.

The Nomination Committee has held one meeting during the financial year. The Nomination Committee reviewed the structure, size and diversity of the Board.

Board Committees (Continued)

Nomination Committee (Continued)

Board Diversity

The Company sees increasing diversity at the Board level as an essential element to complement the Company's corporate strategy and has adopted a Board Diversity Policy which sets out the approach to achieve diversity on the Board.

The Nomination Committee monitors the implementation of the Board Diversity Policy and has 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 described above. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Michael TIEN Puk Sun with Dr. William FUNG Kwok Lun and Mr. WONG Kai Man as members. All of the members are independent non-executive Directors. It is responsible for reviewing and recommending all elements of the executive Directors' and senior management's remunerations to the Board.

The emoluments of Directors 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 to provide incentives and rewards to eligible participants, and a share purchase scheme to motivate employees and attract suitable personnel for continuous development of the Group.

The Remuneration Committee has held two meetings during the financial year. The Remuneration Committee discussed and reviewed the policy for the remuneration of executive Directors and senior management, and the annual salaries increment and remuneration packages for executive Directors and senior management, including the share option scheme for executive Directors and senior management before recommending them to the Board for consideration and approval. It also reviewed and approved the shares to be awarded under the share purchase scheme.

Risk Management and Sustainability Committee

The Risk Management and Sustainability Committee is chaired by Dr. Allan WONG Chi Yun with Dr. PANG King Fai, Mr. Andy LEUNG Hon Kwong, Mr. WONG Kai Man, Ms. Shereen TONG Ka Hung and Mr. CHANG Yu Wai as members. It comprises executive Directors, independent non-executive Director, the Group Chief Financial Officer and the Company Secretary and Group Chief Compliance Officer. It is responsible for monitoring and reviewing the risk management and sustainability strategies of the Group.

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 more 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:

- staff and supplier integrity;
- product design, 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; and
- compliance with the relevant laws and regulations that have a significant impact on the Group.

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 20 to the financial statements.

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.

During the financial year, 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 in November 2015. Upon discovering the incident, the management immediately conducted a thorough investigation to identify the causes of such incident and engaged outside counsel to assist in the response to the cyber attack, and the counsel in turn engaged an expert forensic investigative firm to investigate the cyber attack.

The Company also carried out a thorough review of its plans, policies and procedures, and technological security measures to determine what changes and additions are necessary to prevent the recurrence of the hack and to provide adequate security to customer data. As a result, a comprehensive Data Security Policy (the "Data Security Policy") consolidating a number of existing IT policies was issued and became effective on 22 January 2016. The Data Security Policy applies to the Company and all of its subsidiary companies worldwide. A Data Security Governance Board ("Data Security Governance Board") was formed pursuant to the Data Security Policy on the same date.

The Data Security Governance Board was established with defined terms of reference reporting to the Risk Management and Sustainability Committee. The Data Security Governance Board is chaired by the Group Chairman and comprises the Group President, CMS Chief Executive Officer, TEL President, Group Chief Financial Officer, Company Secretary and Group Chief Compliance Officer, and Group Chief Information Officer. It is responsible for decision-making, implementation, enforcement, oversight, compliance and periodic review of the Data Security Policy.

Board Committees (Continued)

Risk Management and Sustainability Committee (Continued)

The Risk Management and Sustainability Committee also provides 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. During the financial year and up to the date of this Annual Report, it has determined the scope of the Company's annual Sustainability Report and reviewed the Company's 2016 Sustainability Report, which informs our stakeholders of our sustainability strategies and activities, and the performance progress against our sustainability targets.

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 arranged by the Company by qualified professionals on the accounting, corporate governance and regulatory requirements. 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.

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	✔	✔
Independent Non-executive Directors		
William FUNG Kwok Lun	✔	✔
Michael TIEN Puk Sun	✔	✔
Patrick WANG Shui Chung	✔	✔
WONG Kai Man	✔	✔

Note: *Training areas include information related to the Company or electronic manufacturing industry, laws, rules and regulations, accounting standards and business management.*

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, tax services and other advisory services provided by KPMG, the external auditor, is summarised below:

	2016 US$ million	2015 US$ million
Audit services	**0.8**	0.8
Audit related services	**0.1**	0.1
Tax services	**0.5**	0.6
Other advisory services	**0.9**	–

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 2016 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 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 page 43 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 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, and took into consideration the Company's responses to cyber attack and the continuous enhancement of the data security measures, and is satisfied that such system is effective and adequate.

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 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. 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.

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 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 Chief Compliance Officer reports the results of his review of the complaints received to the Audit Committee twice a year.

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 twice a year. 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 of 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 specific enquiry, 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 2016.

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 sensitive 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 proposing 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 resolution 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.

Procedure for proposing 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 sending enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Company's principal office address 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 2016.

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 in order 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 address, via the contact form on the Company's website or through the Company's share registrar.

Biographical Details of Directors

Allan WONG Chi Yun, GBS, MBE, JP, aged 65, Chairman 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.

PANG King Fai, aged 60, 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 57, 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 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 FUNG Kwok Lun, SBS, OBE, JP, aged 67, appointed as 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 has been awarded Honourary Doctorate degrees of Business Administration by The Hong Kong University of Science and Technology and by The Hong Kong Polytechnic University. 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 Trinity Limited and an independent non-executive director of Shui On Land Limited, Sun Hung Kai Properties Limited, The Hongkong and Shanghai Hotels, Limited and Singapore Airlines Limited. He 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 has been awarded the Silver Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2008.

Michael TIEN Puk Sun, BBS, JP, aged 65, appointed as Independent Non-executive Director in 2001. Mr. TIEN holds a Bachelor of Science degree in Electrical Engineering from Cornell University, USA and an MBA degree from Harvard Business School. Mr. TIEN is the Chairman and founder of the G2000 Group which started its business back in 1979. Before starting up G2000, he worked with Macy's Department Store in New York, USA. Mr. TIEN is an active member in Hong Kong community affairs. He is the past Chairman of the Standing Committee on Language Education and Research and a former member of the Education Commission. Mr. TIEN is a member of National People's Congress, People's Republic of China (Hong Kong Deputy) and Legislative Council of the Hong Kong Special Administrative Region of the People's Republic of China.

Patrick WANG Shui Chung, SBS, JP, aged 65, appointed as Independent Non-executive Director in 2001. Dr. WANG obtained his Bachelor 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 Officer of Johnson Electric Holdings Limited and a non-executive director of Tristate Holdings Limited. He is also an external member of the Clinical Governance Committee of the Hong Kong Sanatorium & Hospital for a term of three years from 1 January 2016.

WONG Kai Man, BBS, JP, aged 65, appointed as 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 from 1999 to 2003. He was a non-executive director of the Securities and Futures Commission from 2009 to 2015, an independent non-executive director of China Construction Bank Corporation from 2007 to 2013 and Shangri-la Asia Limited from 2006 to 2015. He is currently a member of Financial Reporting Council and an independent non-executive director of Armada Holdings Limited (formerly known as SCMP Group Limited) and SUNeVision Holdings Limited. Mr. WONG is a member of the Advisory Board of the Asia Global Institute at The University of Hong Kong and an honorary associate professor of the School of Business of The University of Hong Kong. He is a court and council member of The University of Hong Kong and a court member of the City University of Hong Kong. Mr. WONG also serves on the boards of a number of non-governmental organisations.

Biographical Details Of Senior Management

Group

TONG Chi Hoi, aged 51, President of Telecommunication Products, is responsible for overseeing the Branded business and ODM worldwide. Mr. TONG joined the Group in 2006. He has over 20 years of experience in the electronics and manufacturing industry. Mr. TONG holds a First Class Honours Bachelor degree in Electrical and Electronics Engineering from the University of London. He is a member of The Institution of Engineering and Technology.

CHU Chorng Yeong, aged 56, Group Chief Technology Officer, is responsible for overseeing 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. He holds a Bachelor of Science degree in Computer Science from Columbia University, MS and PhD in Electrical Engineering from Stanford University. 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.

Shereen TONG Ka Hung, aged 47, 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. She holds an MBA degree from Manchester Business School, UK, Master of Science degree in Information Systems from The Hong Kong Polytechnic University and Bachelor of Laws degree from Manchester Metropolitan University, UK. She is an associate member of Chartered Institute of Bankers, UK, Chartered Institute of Management Accountants, UK and a fellow member of Hong Kong Institute of Certified Public Accountants.

CHANG Yu Wai, aged 56, 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. He 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.

Hillson CHEUNG Hoi, aged 48, Group General Manager – Operations, is responsible for the factory operations, quality assurance and supply chain management of both the Electronics Learning Products and Telecommunication Products. Mr. CHEUNG joined the Group in 2000 as Factory Manager for Electronics Learning Products business 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 electronics 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.

North America

Ernest M. LEVENSON, aged 55, President of VTech Communications, Inc., is responsible for the sales, operations, human resources and marketing of the Telecommunication Products division in the United States. Mr. LEVENSON joined the Group in 2004 as the vice president of operations of the Telecommunications Products division in the United States. Mr. LEVENSON holds a Bachelor degree in Philosophy from Connecticut College and a Master degree in Business Administration from Babson College.

William TO, aged 59, President of VTech Electronics North America, L.L.C., joined the Group in 1983. Mr. TO is responsible for the Group's Electronic Learning Products in the United States. He holds an MBA degree from the University of Chicago.

Gordon CHOW, aged 60, President of VTech Technologies Canada Ltd., is responsible for both the Telecommunication Products and Electronic Learning Products in Canada. He established the Canadian operations in 1986. Mr. CHOW holds a Bachelor of Commerce degree from the University of British Columbia and is a member of the Institute of Chartered Accountants of British Columbia. 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.

Europe

Gilles SAUTIER, aged 60, European Chief Executive Officer, joined the Group in 2000 and is responsible for Electronic Learning Products in UK, France, Belgium, Holland, Luxembourg, Spain, Germany, Australia, Mexico and Latin America and some export markets such as Italy and Portugal. 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 30 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. He 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.

The Directors have pleasure in presenting their report and the audited financial statements of the Group for the year ended 31 March 2016.

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 2016 are set out in the consolidated statement of profit or loss on page 44.

An interim dividend of US17.0 cents (2015: US17.0 cents) per ordinary share was paid to shareholders on 21 December 2015. The Board has recommended the payment of a final dividend of US25.0 cents (2015: US61.0 cents) per ordinary share in respect of the year ended 31 March 2016, payable on 1 August 2016 to shareholders whose names appear on the register of members of the Company as at the close of business on 21 July 2016 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "2016 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 19 July 2016.

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), including a fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year, an indication of likely future development in the Group's business, an analysis using financial key performance indicators, a discussion on the Group's environmental policies and performance and the compliance with the relevant laws and regulations that have a significant impact on the Group, and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends can be found in the preceding sections of this Annual Report set out on pages 1 to 37. The preceding sections form part of this Report.

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 69.

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 18 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the financial year are set out in the consolidated statement of changes in equity on page 63 and in note 19 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$301,600.

Directors

The Directors who held office during the financial year and up to 17 May 2016 (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

Independent Non-executive Directors
William FUNG Kwok Lun
Michael TIEN Puk Sun
Patrick WANG Shui Chung
WONG Kai Man

At the 2016 AGM, Dr. Allan WONG Chi Yun, Mr. Andy LEUNG Hon Kwong and Mr. Michael TIEN Puk Sun shall retire as Directors by rotation in accordance with Bye-law 112 of the Company's Bye-laws. Dr. Allan WONG Chi Yun and Mr. Andy LEUNG Hon Kwong, being eligible, shall offer themselves for re-election as Directors at the 2016 AGM. Mr. Michael TIEN Puk Sun has informed the Board that he shall not seek for re-election at the 2016 AGM and he shall retire from the Board with effect from the conclusion of the 2016 AGM.

Brief biographical details of Directors and senior management are set out on pages 38 to 39 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.

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 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 18 to the financial statements, at no time during 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.

Share Option Scheme

The Company operates a share option scheme (the "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. Eligible participants of the Scheme include employees and officers of any member of the Group. The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option schemes adopted by the Company is 24,938,913 shares. Under the Scheme, the Directors may, at their discretion, at any time during 10 years from the date of adoption of the 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 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 Scheme.

Details of the Scheme are set out in note 18 to the financial statements.

Share Purchase Scheme

On 30 March 2011 (the "Adoption Date"), the Company adopted a share purchase scheme (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 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. 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.

On 26 March 2013, the Company further 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 pursuant to the Share Purchase Scheme and the French Subplan. The vesting period applicable under the French Subplan shall not be less than 2 years following the date of the award and a further 2 years 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.

Details of the Share Purchase Scheme and the French Subplan are set out in note 18 to the financial statements.

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

As at 31 March 2016, 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**
Allan WONG Chi Yun	9,654,393	3,968,683	74,101,153 *(Note 1)*	–	87,724,229	34.92%
PANG King Fai	91,500	–	–	–	91,500	0.04%
Andy LEUNG Hon Kwong	128,000	–	–	–	128,000	0.05%
William FUNG Kwok Lun	449,430	–	592,200 *(Note 2)*	–	1,041,630	0.41%
Michael TIEN Puk Sun	–	211,500 *(Note 3)*	211,500 *(Note 3)*	–	423,000	0.17%
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 as the trustee of The Allan Wong 2011 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, was 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 Trust Limited which was deemed to be interested in such shares by virtue of the SFO.

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

(3) The shares were held by Romsley International Limited which was jointly owned by Mr. Michael TIEN Puk Sun and his spouse.

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

(5) The approximate percentage of shareholding is calculated based on 251,182,133 shares of the Company in issue as at 31 March 2016.

Save as disclosed above, as at 31 March 2016, 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 2016, 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 under Section 336 of the SFO, were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Credit Suisse Trust Limited	Interest of controlled corporation *(Note 1)*	74,101,153	29.50%
Surplus Assets Limited	Interest of controlled corporation *(Note 1)*	74,101,153	29.50%
Honorex Limited	Interest of controlled corporation *(Note 1)*	65,496,225	26.08%
	Beneficial owner *(Note 1)*	1,416,325	0.56%
Conquer Rex Limited	Beneficial owner *(Note 1)*	65,496,225	26.08%
Templeton Asset Management Limited	Investment manager	20,033,600	7.98%
The Capital Group Companies, Inc.	Interest of controlled corporation	30,252,009	12.04%

Notes:

(1) *The shares were beneficially owned as to 1,416,325 shares by Honorex, as to 65,496,225 shares by Conquer Rex and as to 7,188,603 shares by Twin Success. Conquer Rex was wholly owned by Honorex. Each of Conquer Rex, Honorex and Twin Success was wholly owned by Surplus Assets. Surplus Assets was wholly owned by Credit Suisse Trust Limited as the trustee of The Allan Wong 2011 Trust, a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, was 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 Trust Limited which was deemed to be interested in such shares by virtue of the SFO. Dr. Allan WONG Chi Yun's founder interests in the 74,101,153 shares of the Company has also been disclosed under the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this Annual Report.*

(2) *All the interests stated above represented long positions.*

(3) *The approximate percentage of shareholding is calculated based on 251,182,133 shares of the Company in issue as at 31 March 2016.*

Save as disclosed above, as at 31 March 2016, 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 under 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 2016 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 2016.

Securities Purchase Arrangements

At the 2015 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 77,000 Company's shares at a consideration of US$1 million.

Major Customers and Suppliers

For the year ended 31 March 2016, 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 12.4% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 32.2% of the Group's revenue during the financial year. None of the Directors, their associates or any shareholder (who, to the knowledge of the Directors, owns more than 5% of the Company's share capital) had an interest in the customers and the suppliers noted above.

Events after Reporting Period

On 4 April 2016, the Company, through an indirect wholly-owned subsidiary, completed the acquisition of the entire issued share capital of LeapFrog, a company incorporated in the State of Delaware, the shares of which were previously listed on the New York Stock Exchange, by way of merger at a consideration of approximately US$72 million. LeapFrog is the leading developer which designs and distributes electronic learning products with its well-known brand name "LeapFrog".

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 reappointment at the 2016 AGM.

On behalf of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 17 May 2016

KPMG

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

We have audited the consolidated financial statements of VTech Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 44 to 68, which comprise the consolidated statement of financial position as at 31 March 2016, 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 a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

17 May 2016

Consolidated Statement of Profit or Loss

For the year ended 31 March 2016

	Note	2016 US$ million	2015 US$ million
Revenue	1	**1,856.5**	1,879.8
Cost of sales		**(1,273.2)**	(1,269.3)
Gross profit		**583.3**	610.5
Selling and distribution costs		**(254.3)**	(268.2)
Administrative and other operating expenses		**(70.4)**	(66.1)
Research and development expenses		**(56.3)**	(56.1)
Operating profit	1&2	**202.3**	220.1
Net finance income		**0.8**	1.6
Profit before taxation		**203.1**	221.7
Taxation	4	**(21.7)**	(23.6)
Profit for the year and attributable to shareholders of the Company		**181.4**	198.1
Earnings per share (US cents)	6		
– Basic		**72.2**	78.9
– Diluted		**72.2**	78.9

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2016

	2016 US$ million	2015 US$ million
Profit for the year	**181.4**	198.1
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax	**(1.5)**	(0.6)
	(1.5)	(0.6)
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on hedging	**4.8**	5.0
Realisation of hedging reserve	**(5.2)**	4.4
Exchange translation differences	**0.2**	(28.0)
	(0.2)	(18.6)
Other comprehensive income for the year	**(1.7)**	(19.2)
Total comprehensive income for the year	**179.7**	178.9

Consolidated Statement of Financial Position

As at 31 March 2016

	Note	2016 US$ million	2015 US$ million
Non-current assets			
Tangible assets	7	**68.4**	67.0
Leasehold land payments	8	**4.8**	5.0
Deposits for acquisition of tangible assets	9	**3.3**	–
Investments	10	**3.1**	0.1
Deferred tax assets	11(b)	**4.0**	4.5
		83.6	76.6
Current assets			
Stocks	12	**285.4**	290.2
Debtors, deposits and prepayments	13	**266.2**	259.9
Taxation recoverable	11(a)	**2.3**	–
Deposits and cash	14	**273.0**	294.2
		826.9	844.3
Current liabilities			
Creditors and accruals	15	**(345.3)**	(342.6)
Provisions for defective goods returns and other liabilities	16	**(31.5)**	(27.3)
Taxation payable	11(a)	**(3.6)**	(7.2)
		(380.4)	(377.1)
Net current assets		**446.5**	467.2
Total assets less current liabilities		**530.1**	543.8
Non-current liability			
Net obligations on defined benefit scheme	17	**(5.1)**	(3.0)
Net assets		**525.0**	540.8
Capital and reserves			
Share capital	18(a)	**12.5**	12.5
Reserves		**512.5**	528.3
Total equity		**525.0**	540.8

Approved and authorised for issue by the Board of Directors on 17 May 2016.

Allan WONG Chi Yun
Director

PANG King Fai
Director

The notes and principal accounting policies on pages 46 to 68 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 2016

		Attributable to shareholders of the Company							
	Note	Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Exchange reserve US$ million	Capital reserve US$ million	Hedging reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 2014		12.5	144.5	(0.5)	11.2	1.0	(4.2)	397.9	562.4
Changes in equity for the year ended 31 March 2015									
Comprehensive income									
Profit for the year		–	–	–	–	–	–	198.1	198.1
Other comprehensive income									
Fair value gains on hedging		–	–	–	–	–	5.0	–	5.0
Realisation of hedging reserve		–	–	–	–	–	4.4	–	4.4
Exchange translation differences		–	–	–	(28.0)	–	–	–	(28.0)
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		–	–	–	–	–	–	(0.6)	(0.6)
Other comprehensive income for the year		–	–	–	(28.0)	–	9.4	(0.6)	(19.2)
Total comprehensive income for the year		–	–	–	(28.0)	–	9.4	197.5	178.9
Final dividend in respect of the previous year		–	–	–	–	–	–	(160.8)	(160.8)
Interim dividend in respect of the current year	5	–	–	–	–	–	–	(42.7)	(42.7)
Shares issued under share option scheme	18(b)&19(b)	–	3.4	–	–	–	–	–	3.4
Equity-settled share based payments	19(b)	–	0.9	–	–	(0.9)	–	–	–
Share option lapsed during the year	18(b)&19(b)	–	–	–	–	(0.1)	–	0.1	–
Shares purchased for Share Purchase Scheme	18(c)&19(b)	–	–	(1.7)	–	–	–	–	(1.7)
Vesting of shares of Share Purchase Scheme	18(c)&19(b)	–	–	1.3	–	–	–	–	1.3
At 31 March 2015		12.5	148.8	(0.9)	(16.8)	–	5.2	392.0	540.8

		Attributable to shareholders of the Company						
	Note	**Share capital US$ million**	**Share premium US$ million**	**Shares held for Share Purchase Scheme US$ million**	**Exchange reserve US$ million**	**Hedging reserve US$ million**	**Revenue reserve US$ million**	**Total equity US$ million**
At 1 April 2015		12.5	148.8	(0.9)	(16.8)	5.2	392.0	540.8
Changes in equity for the year ended 31 March 2016								
Comprehensive income								
Profit for the year		–	–	–	–	–	181.4	181.4
Other comprehensive income								
Fair value gains on hedging		–	–	–	–	4.8	–	4.8
Realisation of hedging reserve		–	–	–	–	(5.2)	–	(5.2)
Exchange translation differences		–	–	–	0.2	–	–	0.2
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		–	–	–	–	–	(1.5)	(1.5)
Other comprehensive income for the year		–	–	–	0.2	(0.4)	(1.5)	(1.7)
Total comprehensive income for the year		–	–	–	0.2	(0.4)	179.9	179.7
Final dividend in respect of the previous year	5	–	–	–	–	–	(153.2)	(153.2)
Interim dividend in respect of the current year	5	–	–	–	–	–	(42.7)	(42.7)
Shares purchased for Share Purchase Scheme	18(c)&19(b)	–	–	(1.0)	–	–	–	(1.0)
Vesting of shares of Share Purchase Scheme	18(c)&19(b)	–	–	1.4	–	–	–	1.4
At 31 March 2016		**12.5**	**148.8**	**(0.5)**	**(16.6)**	**4.8**	**376.0**	**525.0**

The notes and principal accounting policies on pages 46 to 68 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2016

	Note	2016 US$ million	2015 US$ million
Operating activities			
Operating profit		**202.3**	220.1
Depreciation of tangible assets	2	**34.9**	31.5
Amortisation of leasehold land payments	2	**0.2**	0.1
Gain on disposal of tangible assets	2	**–**	(0.2)
Decrease/(increase) in stocks		**4.8**	(24.3)
Increase in debtors, deposits and prepayments		**(7.1)**	(18.1)
Increase in creditors and accruals		**3.1**	41.6
Increase/(decrease) in provisions for defective goods returns and other liabilities		**4.2**	(0.6)
Increase in net obligations on defined benefit scheme		**0.4**	0.3
Cash generated from operations		**242.8**	250.4
Interest received		**0.8**	1.6
Taxes paid		**(26.9)**	(22.5)
Net cash generated from operating activities		**216.7**	229.5
Investing activities			
Purchase of tangible assets	7	**(38.3)**	(30.9)
Proceeds from disposal of tangible assets		**0.3**	0.2
Proceeds received from bank deposits with original maturity greater than three months	14	**70.0**	65.0
Deposit paid for acquisition of tangible assets		**(3.3)**	–
Purchase of investments		**(3.0)**	–
Net cash generated from investing activities		**25.7**	34.3
Financing activities			
Proceeds from shares issued upon exercise of share options	18(b)& 19(b)	**–**	3.4
Payment for shares acquired for Share Purchase Scheme	18(c)	**(1.0)**	(1.7)
Dividends paid	5	**(195.9)**	(203.5)
Net cash used in financing activities		**(196.9)**	(201.8)
Effect of exchange rate changes		**3.3**	(25.7)
Increase in cash and cash equivalents		**48.8**	36.3
Cash and cash equivalents at 1 April		**224.2**	187.9
Cash and cash equivalents at 31 March	14	**273.0**	224.2

The notes and principal accounting policies on pages 46 to 68 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"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related Interpretations promulgated by the International Accounting Standards Board ("IASB").

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 the following new and revised IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to IAS 19, *Employee benefits – Defined benefit plans: Employee contributions*
- *Annual improvements to IFRSs 2010-2012 cycle*
- *Annual improvements to IFRSs 2011-2013 cycle*

Amendments to IAS 19, *Employee benefits – Defined benefit plans: Employee contributions*

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the defined benefit plans operated by the Group are wholly funded by contributions from the Group and do not involve contributions from employees or third parties.

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, *Related party disclosures* has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (note 25).

Principal Accounting Policies (Continued)

C Basis of Preparation of the Financial Statements

These financial statements are prepared on the historical cost basis as modified by the revaluation of derivative financial instruments stated 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 26.

D Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and structured entities. 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, and 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 in equity as Shares held for Share Purchase Scheme.

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 (K)). The financial results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

E Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is stated net of sales taxes, returns, rebates and discounts.

ii. Revenue from the provision of services is recognised when the services are rendered.

iii. Interest income is recognised as it accrues using the effective interest method.

iv. 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 only if the product or process is clearly defined, 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 (K)). 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.

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. 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.

Principal Accounting Policies (Continued)

H Tangible Assets and Depreciation

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

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

Freehold land is not depreciated.

Leasehold land	Over the unexpired term of lease
Freehold buildings, 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.

I Construction in Progress

Construction in progress represents land and buildings under development and is stated at cost less impairment losses (see note (K)). 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 (H)).

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

J Leases

Leases of tangible assets under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Tangible assets acquired by way of finance lease is 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 (see note (K)). Finance charges are recognised in profit or loss in proportion of the capital balances outstanding.

Leases of assets under which substantially all the benefits and risks of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the period of the lease.

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

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

K Impairment of Assets

(i) Impairment of debtors and other financial assets

Impairment losses for doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for debtors whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

The carrying amounts of the Group's assets including tangible assets, construction in progress and interest in subsidiaries, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount is the greater of the asset's 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 whenever the carrying amount exceeds the recoverable amount.

– Reversal of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. 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.

– 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.

Principal Accounting Policies (Continued)

L Other Investments

Other investments are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. Subsequently, other investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses. At the end of each reporting period, the fair value of investment designated at fair value through profit or loss is remeasured, with any resultant gain or loss being recognised in profit or loss.

The impairment loss is assessed as the difference between the carrying amount of the other investments and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for other investments carried at cost are not reversed.

M 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 inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimates of 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.

N Trade and Other Debtors

Trade and other debtors are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the debtors are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note (K)).

O Cash and Cash Equivalents

Cash and cash equivalents comprise cash 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 and which have a maturity of three months or less 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.

P Trade and Other Creditors

Trade and other creditors are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Q Provisions and Contingent Liabilities

(i) 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.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other creditors. 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 on initial recognition of any deferred income.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation 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 of the amount of the obligation can be made.

The Group recognises the estimated liability on expected return claims with respect to products sold. This provision is calculated based on past experience of the level of repairs and returns.

The Group recognises the expected costs of accumulating compensated absences when employees render a service that increases their entitlement to future compensated absences, measured as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

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.

R 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 between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. 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 be capable to 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).

Principal Accounting Policies (Continued)

R Income Tax (Continued)

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.

S 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.

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 option and Awarded Shares are spread over the vesting period, taking into account the probability that the options 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) 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.

T Share 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.

T Share held for Share Purchase Scheme (Continued)

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.

U Derivative Financial Instruments

Derivative financial instruments are recognised initially 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 or hedge of the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are 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 or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point 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 cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

V Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

W 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.

X 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.

Y Related Parties

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

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Group or the Group's parent.

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

   (i) 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).

   (ii) 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).

   (iii) Both entities are joint ventures of the same third party.

   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

   (vi) The entity is controlled or jointly controlled by a person identified in (a).

   (vii) A person identified in (a)(i) 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).

   (viii) 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 Segment Information

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

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
- Others, 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 telecommunication products, electronic learning 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 primarily in the People's Republic of China ("PRC") 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:

(a) 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.

(b) Segment assets and liabilities

Segment assets include all tangible and intangible assets and current assets with the exception of deferred tax assets and other corporate assets including taxation recoverable and investments.

Segment liabilities include creditors and accruals and provisions for defective goods returns and other liabilities with the exception of taxation payable.

Year ended 31 March 2016	**North America US$ million**	**Europe US$ million**	**Asia Pacific US$ million**	**Others US$ million**	**Total US$ million**
Reportable segment revenue	**878.3**	**795.9**	**129.0**	**53.3**	**1,856.5**
Reportable segment profit	**97.1**	**79.3**	**18.9**	**7.0**	**202.3**
Depreciation and amortisation	**0.7**	**0.5**	**33.9**	**–**	**35.1**
Reportable segment assets	**141.6**	**81.3**	**678.1**	**0.1**	**901.1**
Reportable segment liabilities	**(46.3)**	**(24.0)**	**(311.5)**	**(0.1)**	**(381.9)**

Year ended 31 March 2015	North America US$ million	Europe US$ million	Asia Pacific US$ million	Others US$ million	Total US$ million
Reportable segment revenue	899.5	812.3	117.6	50.4	1,879.8
Reportable segment profit	89.1	105.8	17.2	8.0	220.1
Depreciation and amortisation	0.6	0.6	30.4	–	31.6
Reportable segment assets	162.2	67.6	686.4	0.1	916.3
Reportable segment liabilities	(41.7)	(21.8)	(309.1)	(0.3)	(372.9)

(c) Reconciliations of reportable segment assets and liabilities

	Note	**2016 US$ million**	2015 US$ million
Assets			
Reportable segment assets		**901.1**	916.3
Investments		**3.1**	0.1
Taxation recoverable	11(a)	**2.3**	–
Deferred tax assets	11(b)	**4.0**	4.5
Consolidated total assets		**910.5**	920.9
Liabilities			
Reportable segment liabilities		**(381.9)**	(372.9)
Taxation payable	11(a)	**(3.6)**	(7.2)
Consolidated total liabilities		**(385.5)**	(380.1)

For the year ended 31 March 2016, approximately 12% (2015: 13%) of the Group's revenue is derived from a single external customer. Such revenue is attributable to the North America segment.

Details of concentrations of credit risk of the Group are set out in note 20(a).

2 Operating Profit

Operating profit is arrived at after charging/(crediting) the following:

	Note	**2016 US$ million**	2015 US$ million
Staff related costs			
– salaries and wages		**288.5**	287.6
– pension costs: defined contribution schemes	17(a)	**18.3**	16.6
– pension costs: defined benefit scheme	17(b)	**1.8**	1.7
– severance payments		**3.0**	1.2
– share-based payment expenses	18(c)	**1.4**	1.3
		313.0	308.4
Cost of inventories	12(b)	**1,273.2**	1,269.3
Depreciation of tangible assets	7	**34.9**	31.5
Amortisation of leasehold land payments	8	**0.2**	0.1
Gain on disposal of tangible assets		**–**	(0.2)
Auditors' remuneration			
– audit services		**0.8**	0.8
– audit related services		**0.1**	0.1
– tax services		**0.5**	0.6
– other advisory services		**0.9**	–

	Note	**2016 US$ million**	2015 US$ million
Operating leases charges: minimum lease payments			
– land and buildings		**16.7**	15.8
– others		**2.6**	2.4
Impairment loss of trade debtors	13(b)	**0.6**	1.4
Impairment loss of trade debtors written back	13(b)	**(0.3)**	(1.1)
Royalties		**10.0**	14.1
Provision for defective goods returns	16	**21.3**	24.0
Net foreign exchange loss		**0.3**	0.3
Net (gain)/loss on forward foreign exchange contracts			
– Net (gain)/loss on cash flow hedging instruments reclassified from equity		**(5.2)**	4.4
– Net loss/(gain) on forward foreign exchange contracts		**0.2**	(0.4)

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**	**2016 Total US$ million**
Executive Directors *(i)*					
Allan WONG Chi Yun *(ii)*	**–**	**1.0**	**1.8**	**0.1**	**2.9**
PANG King Fai	**–**	**0.5**	**1.0**	**–**	**1.5**
Andy LEUNG Hon Kwong	**–**	**0.5**	**1.5**	**–**	**2.0**
Independent Non-executive Directors					
William FUNG Kwok Lun *(iii)*	**–**	**–**	**–**	**–**	**–**
Michael TIEN Puk Sun *(iii)*	**–**	**–**	**–**	**–**	**–**
Patrick WANG Shui Chung *(iv)*	**–**	**–**	**–**	**–**	**–**
WONG Kai Man *(v)*	**–**	**–**	**–**	**–**	**–**
	–	**2.0**	**4.3**	**0.1**	**6.4**

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	2015 Total US$ million
Executive Directors *(i)*					
Allan WONG Chi Yun *(ii)*	–	0.9	2.0	0.1	3.0
PANG King Fai	–	0.5	1.5	–	2.0
Andy LEUNG Hon Kwong	–	0.5	1.8	–	2.3
Independent Non-executive Directors					
William FUNG Kwok Lun *(iii)*	–	–	–	–	–
Michael TIEN Puk Sun *(iii)*	–	–	–	–	–
Patrick WANG Shui Chung *(iv)*	–	–	–	–	–
WONG Kai Man *(v)*	–	–	–	–	–
	–	1.9	5.3	0.1	7.3

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

Directors' emoluments (Continued)

Notes:

(i) *The directors' fee paid to each executive Director, except for Dr. Allan WONG Chi Yun, was US$30,000 (2015: US$30,000) per annum. The directors' fee paid to Dr. Allan WONG Chi Yun was US$32,000 (2015: US$30,000) per annum.*

(ii) *Included in the emoluments paid to Dr. Allan WONG Chi Yun was housing benefit of HK$4,200,000 for the year ended 31 March 2016 (2015: HK$3,600,000), which was based on the lease agreement entered by the Company with Aldenham Company Limited ("Aldenham"). Aldenham is an indirect wholly-owned subsidiary of a discretionary trust of which Dr. Allan WONG Chi Yun, a Director, was the founder.*

(iii) *The emoluments paid to Dr. William FUNG Kwok Lun and Mr. Michael TIEN Puk Sun were US$38,000 each (2015: US$30,000) per annum.*

(iv) *The emoluments paid to Dr. Patrick WANG Shui Chung was US$32,000 (2015: US$30,000) per annum.*

(v) *The emoluments paid to Mr. WONG Kai Man was US$39,000 (2015: US$30,000) per annum.*

Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2015: three) are Directors whose emoluments are set out above. The aggregate of the emoluments in respect of the other two (2015: two) individuals are as follows:

	2016 US$ million	2015 US$ million
Salaries, allowances and benefits in kind	**0.9**	0.9
Discretionary bonuses	**2.0**	2.6
Contributions to retirement benefit schemes	**0.1**	0.1
	3.0	3.6

The emoluments fell within the following bands:

	2016 Individuals	2015 Individuals
US$		
961,001 – 1,025,000	**1**	1
1,921,001 – 1,985,000	**1**	–
2,689,001 – 2,753,000	**–**	1
	2	2

During the years ended 31 March 2015 and 31 March 2016, 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:

	2016 Individuals	2015 Individuals
US$		
256,001 – 320,000	**–**	1
321,001 – 385,000	**3**	2
385,001 – 449,000	**1**	–
449,001 – 513,000	**–**	2
513,001 – 577,000	**1**	1
577,001 – 641,000	**1**	–
705,001 – 769,000	**1**	–
769,001 – 833,000	**–**	1
	7	7

4 Taxation

	Note	**2016 US$ million**	2015 US$ million
Current tax			
– Hong Kong		**15.3**	17.1
– Overseas		**7.0**	8.1
(Over)/under-provision in respect of prior years			
– Hong Kong		**(0.5)**	0.3
– Overseas		**(0.7)**	–
Deferred tax			
– Origination and reversal of temporary differences	11(b)	**0.6**	(1.9)
		21.7	23.6

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

(b) Overseas taxation has been calculated at the rates of taxation prevailing in the countries 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 2016 was 10.7% (2015: 10.6%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2016 %	2015 %
Statutory domestic income tax rate	**16.5**	16.5
Difference in overseas income tax rates	**1.2**	1.1
Tax effect of non-temporary differences	**(6.1)**	(6.5)
Others	**(0.9)**	(0.5)
Effective income tax rate	**10.7**	10.6

5 Dividends

	Note	2016 US$ million	2015 US$ million
Interim dividend of US17.0 cents (2015: US17.0 cents) per share declared and paid	19(b)	**42.7**	42.7
Final dividend of US25.0 cents (2015: US61.0 cents) per share proposed after the end of the reporting period	19(b)	**62.8**	153.2

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 19 May 2015, the Directors proposed a final dividend of US61.0 cents per ordinary share for the year ended 31 March 2015, which was estimated to be US$153.2 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2015. The final dividend was approved by shareholders at the annual general meeting on 15 July 2015. The final dividend paid in respect of the year ended 31 March 2015 totaled US$153.2 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$181.4 million (2015: US$198.1 million).

The calculation of basic earnings per share is based on the weighted average of 251.1 million (2015: 251.1 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share for the year ended 31 March 2015 was based on 251.1 million ordinary shares 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 ordinary shares under the Company's share option scheme. No adjustment has been made to the basic earnings per share presented for the year ended 31 March 2016 as the Company did not have any significant dilutive potential ordinary shares during the year.

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 2014	54.4	15.7	285.4	127.8	6.9	490.2
Additions	0.1	1.6	21.6	7.6	–	30.9
Disposals	–	(0.2)	(21.7)	(2.9)	–	(24.8)
Effect of changes in exchange rates	(1.8)	(0.1)	(0.8)	(2.4)	–	(5.1)
At 31 March 2015 and 1 April 2015	52.7	17.0	284.5	130.1	6.9	491.2
Additions	–	3.7	21.5	13.1	–	38.3
Disposals	–	–	(6.5)	(2.3)	–	(8.8)
Effect of changes in exchange rates	(0.4)	(0.6)	(1.6)	(2.1)	–	(4.7)
At 31 March 2016	**52.3**	**20.1**	**297.9**	**138.8**	**6.9**	**516.0**
Accumulated depreciation and impairment						
At 1 April 2014	35.7	9.4	257.8	111.8	6.9	421.6
Charge for the year	1.6	1.1	18.9	9.9	–	31.5
Written back on disposals	–	(0.2)	(21.8)	(2.8)	–	(24.8)
Effect of changes in exchange rates	(1.0)	(0.1)	(0.7)	(2.3)	–	(4.1)
At 31 March 2015 and 1 April 2015	36.3	10.2	254.2	116.6	6.9	424.2
Charge for the year	1.5	1.2	23.1	9.1	–	34.9
Written back on disposals	–	–	(6.3)	(2.2)	–	(8.5)
Effect of changes in exchange rates	–	(0.4)	(1.1)	(1.5)	–	(3.0)
At 31 March 2016	**37.8**	**11.0**	**269.9**	**122.0**	**6.9**	**447.6**
Net book value at 31 March 2016	**14.5**	**9.1**	**28.0**	**16.8**	**–**	**68.4**
Net book value at 31 March 2015	16.4	6.8	30.3	13.5	–	67.0

7 Tangible Assets (Continued)

Land and buildings comprise:

	Freehold land and buildings and medium-term leasehold land and buildings US$ million	Short-term leasehold buildings US$ million	Total US$ million
Cost			
At 1 April 2014	12.1	42.3	54.4
Additions	–	0.1	0.1
Effect of changes in exchange rates	(1.8)	–	(1.8)
At 31 March 2015 and 1 April 2015	10.3	42.4	52.7
Effect of changes in exchange rates	0.3	(0.7)	(0.4)
At 31 March 2016	**10.6**	**41.7**	**52.3**
Accumulated depreciation			
At 1 April 2014	6.6	29.1	35.7
Charge for the year	0.3	1.3	1.6
Effect of changes in exchange rates	(1.0)	–	(1.0)
At 31 March 2015 and 1 April 2015	5.9	30.4	36.3
Charge for the year	0.2	1.3	1.5
Effect of changes in exchange rates	0.2	(0.2)	–
At 31 March 2016	**6.3**	**31.5**	**37.8**
Net book value at 31 March 2016	**4.3**	**10.2**	**14.5**
Net book value at 31 March 2015	4.4	12.0	16.4
Net book value of land and buildings comprises:			
Hong Kong			
Medium-term leasehold land and buildings			
(less than 50 years but not less than 10 years)	1.5	–	1.5
Overseas			
Freehold land and buildings	2.8	–	2.8
Short-term leasehold buildings	–	10.2	10.2
	2.8	10.2	13.0

8 Leasehold Land Payments

	Note	2016 US$ million	2015 US$ million
Net book value at 1 April		**5.0**	5.1
Amortisation	2	**(0.2)**	(0.1)
Net book value at 31 March *(note (i))*		**4.8**	5.0
Leasehold land payments in respect of:			
Owner-occupied properties		**4.8**	5.0

Note:

(i) Included in leasehold land payments is the amount of US$3.0 million (2015: US$3.0 million) paid for the acquisition of certain sites in the PRC.

9 Deposits for acquisition of tangible assets

At 31 March 2016, the amount represented deposits for acquisition of moulds, machinery and equipment and furniture and fixtures. The balancing payment for the acquisition is included in the capital commitments for property, plant and equipment (note 21).

10 Investments

At 31 March 2016, investments of US$3.1 million (2015: US$0.1 million) included investment in an unlisted company designated at fair value through profit or loss of US$3.0 million (2015: US$Nil).

11 Income Tax in the Consolidated Statement of Financial Position

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

	2016 US$ million	2015 US$ million
Provision for profits tax for the year	**(22.3)**	(25.2)
Provisional profits tax paid	**20.9**	17.7
	(1.4)	(7.5)
Balance of profits tax provision relating to prior years	**0.1**	0.3
	(1.3)	(7.2)
Represented by:		
Taxation recoverable *(note (i))*	**2.3**	–
Taxation payable *(note (i))*	**(3.6)**	(7.2)
	(1.3)	(7.2)

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 countries and after netting off provisional tax paid.

(b) The components of deferred tax assets and the movements for the years ended 31 March 2015 and 31 March 2016 are as follows:

	Note	**Unutilised tax losses US$ million**	**Other temporary differences US$ million**	**Total US$ million**
Deferred tax arising from:				
At 1 April 2014		0.1	2.4	2.5
Credited to consolidated statement of profit or loss	4	–	1.9	1.9
Credited to other comprehensive income		–	0.1	0.1
At 31 March 2015		0.1	4.4	4.5
At 1 April 2015		0.1	4.4	4.5
Charged to consolidated statement of profit or loss	4	–	(0.6)	(0.6)
Effect of changes in exchange rates		(0.1)	–	(0.1)
Credited to other comprehensive income		–	0.2	0.2
At 31 March 2016		**–**	**4.0**	**4.0**

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority on the same taxable entity.

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$4.7 million (2015: US$4.9 million) arising from unused tax losses sustained in the operations of certain subsidiaries of US$28.8 million (2015: US$29.6 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 2016.

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. The tax losses arising from the operations in the United States expire up to 20 years after the relevant accounting year end date, depending on the relevant jurisdictions.

12 Stocks

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

	2016 US$ million	2015 US$ million
Raw materials	**96.4**	99.6
Work in progress	**28.8**	32.6
Finished goods	**160.2**	158.0
	285.4	290.2

Stocks carried at net realisable value at 31 March 2016 amounted to US$8.0 million (2015: US$11.0 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:

	2016 US$ million	2015 US$ million
Carrying amount of stocks sold	**1,266.1**	1,258.7
Write-down of stocks	**8.3**	10.9
Reversal of write-down of stocks	**(1.2)**	(0.3)
	1,273.2	1,269.3

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.

13 Debtors, Deposits and Prepayments

	Note	2016 US$ million	2015 US$ million
Trade debtors (Net of allowance for doubtful debts of US$5.9 million (2015: US$6.0 million))	13(a)&(b)	**230.3**	221.9
Other debtors, deposits and prepayments		**30.4**	31.4
Forward foreign exchange contracts held as cash flow hedging instruments	20(b)&(d)	**5.5**	6.6
		266.2	259.9

All of other debtors, deposits and prepayments apart from the amounts of US$2.9 million (comprised largely of rental deposits) (2015: US$3.8 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 allowance for doubtful debts, is as follows:

	2016 US$ million	2015 US$ million
0-30 days	**130.0**	127.9
31-60 days	**59.4**	71.6
61-90 days	**35.2**	21.2
>90 days	**5.7**	1.2
Total	**230.3**	221.9

The majority of the Group's sales are on letter 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.

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

At 31 March 2016, the Group's trade debtors of US$5.9 million (2015: US$6.0 million) were individually determined to be impaired as management considered that these receivables cannot be recovered. Consequently, full provisions for these doubtful debts were recognised.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	Note	2016 US$ million	2015 US$ million
At 1 April		**6.0**	6.4
Impairment loss recognised	2	**0.6**	1.4
Impairment loss written back	2	**(0.3)**	(1.1)
Uncollectible amounts written off		**(0.5)**	(0.5)
Effect of changes in exchange rates		**0.1**	(0.2)
At 31 March		**5.9**	6.0

(c) Trade debtors that are not impaired

As at 31 March 2016, 98% (2015: 97%) of the Group's trade debtors were not impaired, of which 100% (2015: 100%) was either not past due or less than two months past due. Based on past experience of the Group, it is determined that no impairment allowance is necessary in respect of these balances as these balances are considered to be fully recoverable. The Group does not hold any collateral over these balances.

14 Deposits and Cash

	2016 US$ million	2015 US$ million
Short term bank deposits	**5.0**	94.4
Cash at bank and in hand	**268.0**	199.8
Deposits and cash	**273.0**	294.2
Less: bank deposits with original maturity greater than three months	**–**	(70.0)
Cash and cash equivalents in the consolidated statement of cash flows	**273.0**	224.2

Deposits and cash as at 31 March 2016 include US$22.0 million (2015: US$35.8 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.

15 Creditors and Accruals

	Note	2016 US$ million	2015 US$ million
Trade creditors	15(a)	**188.4**	186.1
Other creditors and accruals	15(b)	**156.3**	155.4
Forward foreign exchange contracts held as cash flow hedging instruments	20(b) &(d)	**0.6**	1.1
		345.3	342.6

(a) Ageing Analysis

An ageing analysis of trade creditors by transaction date is as follows:

	2016 US$ million	2015 US$ million
0-30 days	**71.8**	60.7
31-60 days	**36.9**	46.5
61-90 days	**52.7**	56.4
>90 days	**27.0**	22.5
Total	**188.4**	186.1

(b) Other creditors and accruals

Other creditors and accruals comprised largely accruals in 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.

16 Provisions for defective goods returns and other liabilities

At 31 March 2016, provisions of US$31.5 million (2015: US$27.3 million) include provisions for defective goods returns of US$20.9 million (2015: US$22.0 million) and other liabilities of US$10.6 million (2015: US$5.3 million).

Movement of provision for defective goods returns is as follows:

	2016 US$ million	2015 US$ million
At 1 April	**22.0**	22.7
Effect of changes in exchange rates	**–**	(0.4)
Additional provisions charged to consolidated statement of profit or loss	**21.3**	24.0
Utilised during the year	**(22.4)**	(24.3)
At 31 March	**20.9**	22.0

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.

17 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$17.5 million (2015: US$15.8 million) and US$0.8 million (2015: US$0.8 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 2016 using the projected unit credit method.

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

	2016 US$ million	2015 US$ million
Fair value of Scheme assets	**28.7**	28.8
Present value of funded defined benefit obligations	**(33.8)**	(31.8)
Net obligations on defined benefit scheme recognised in the consolidated statement of financial position	**(5.1)**	(3.0)

A portion of the above liability is expected to be settled 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$1.8 million in contributions to defined benefit retirement scheme in the year ending 31 March 2017.

17 Pension Schemes (Continued)

(b) Defined benefit scheme (Continued)

(ii) Movement in fair value of Scheme assets:

	2016 US$ million	2015 US$ million
At 1 April	**28.8**	26.8
Interest income on Scheme assets	**0.5**	0.6
Return on Scheme assets excluding interest income	**(1.7)**	1.2
Actual Group's contributions	**1.4**	1.4
Actual benefits paid	**(0.2)**	(1.1)
Administrative expenses paid from Scheme assets	**(0.1)**	(0.1)
At 31 March	**28.7**	28.8

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

	2016 US$ million	2015 US$ million
At 1 April	**31.8**	28.8
Actuarial losses/(gains) arising from changes in liability experience	**0.4**	(0.2)
Actuarial (gains)/losses arising from changes in financial assumptions	**(0.4)**	2.1
Interest cost	**0.5**	0.6
Current service cost	**1.7**	1.6
Actual benefits paid	**(0.2)**	(1.1)
At 31 March	**33.8**	31.8

The weighted average duration of the defined benefit obligations is 8.3 years (2015: 8.9 years).

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

	Note	2016 US$ million	2015 US$ million
Current service cost		**1.7**	1.6
Net interest cost on net defined benefit liability		**–**	–
Administrative expenses paid from Scheme assets		**0.1**	0.1
Amounts recognised in profit or loss	2	**1.8**	1.7
Actuarial losses		**–**	1.9
Return on Scheme assets excluding interest income		**1.7**	(1.2)
Amounts recognised in other comprehensive income		**1.7**	0.7
Total defined benefit costs		**3.5**	2.4

(v) Scheme assets consist of the following:

	2016 US$ million	2015 US$ million
Equity securities:		
– Financial institutions	**4.5**	5.6
– Non-financial institutions	**11.2**	12.5
	15.7	18.1
Bonds:		
– Government	**5.3**	4.5
– Non-government	**7.1**	5.8
	12.4	10.3
Cash and others	**0.6**	0.4
	28.7	28.8

(vi) The significant actuarial assumptions used as at 31 March 2016 (expressed as weighted average) and sensitivity analysis are as follows:

	2016	2015
Discount rate	**1.2%**	1.5%
Future salary increases	**4.5%**	5.0%

The below analysis shows how the defined benefit obligation as at 31 March 2016 would have increased/(decreased) as a result of a 0.25% change in the significant actuarial assumptions:

	Increase in 0.25% US$ million	Decrease in 0.25% US$ million
Discount rate	**(0.2)**	**0.2**
Future salary increases	**0.2**	**(0.2)**

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.

18 Share Capital, Share Options and Share Purchase Scheme

(a) Share Capital

	2016 US$ million	2015 US$ million
Authorised		
Ordinary shares: 400,000,000 (2015: 400,000,000) of US$0.05 each	**20.0**	20.0

	2016		2015	
	No. of shares	**US$ million**	No. of shares	US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At 1 April	**251,182,133**	**12.5**	250,872,133	12.5
Shares issued upon exercise of share options	**–**	**–**	310,000	–
At 31 March	**251,182,133**	**12.5**	251,182,133	12.5

The Company's issued and fully paid shares as at 31 March 2016 included 42,600 shares (2015: 74,600 shares) held in trust by the trustee under the Share Purchase Scheme and 9,100 shares (2015: 17,200 shares) 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 18(c).

The company level statement of financial position can be found in note 23.

(b) Share Options

The Company operates the 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 Scheme, the Directors are authorised, at any time during the 10 years from the date of adoption of the 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 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 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 employees 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 employee 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 employee 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 Scheme does not contain any such minimum period. The 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 Scheme was 23,145,913 shares, which represented approximately 9.21% of the issued share capital of the Company. During the financial year and since the adoption of the Scheme, no options were granted, exercised, cancelled or lapsed under the Scheme.

(c) Share Purchase Scheme

On 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. 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.

On 26 March 2013, the Company further adopted the French Subplan. The Awarded Shares will be granted to the eligible French employees pursuant to the Share Purchase Scheme and the French Subplan. The vesting period applicable under the French Subplan shall not be less than 2 years following the date of the award and a further 2 years sales restriction period as calculated from the date of the Awarded Shares being transferred to the eligible French employees.

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

(c) Share Purchase Scheme (Continued)

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. During the financial year, no new shares were issued under the general mandate of the Company pursuant to the Share Purchase Scheme.

During the year ended 31 March 2016, 77,000 shares (2015: 130,200 shares) were acquired on the Stock Exchange pursuant to the Share Purchase Scheme. The total amount paid to acquire the shares during the financial year was US$1.0 million (2015: US$1.7 million).

Details of the Awarded Shares (including those awarded pursuant to the French Subplan) which have been granted during the years ended 31 March 2015 and 31 March 2016 are as follows:

	2016	2015
Date of award *(Note 1)*	**15 June 2015**	12 June 2014
Average purchase cost per Awarded Share	**HK$101.23**	HK$106.53
Number of Awarded Shares granted *(Note 4)*	**109,000**	94,600
Cost of related Awarded Shares	**US$1.4 million**	US$1.3 million
Vesting Period	**15 June 2015 to 21 June 2015**	12 June 2014 to 18 June 2014
Vesting Period for the Awarded Shares granted under the French Subplan	**15 June 2017 to 21 June 2017**	12 June 2016 to 18 June 2016

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 of the Awarded Shares.

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

(3) No Awarded Shares lapsed or were cancelled during the financial year.

(4) These Awarded Shares included 4,300 Awarded Shares (2015: 4,800 Awarded Shares) granted under the French Subplan during the financial year.

As at 31 March 2016, a total of 42,600 shares (2015: 74,600 shares) were held in trust by the trustee under the Share Purchase Scheme and 9,100 shares (2015: 17,200 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 trust will be reinvested to acquire further shares.

During the year ended 31 March 2016, share-based payment expenses of US$1.4 million (2015: US$1.3 million) in respect of the Awarded Shares were charged to the consolidated statement of profit or loss.

(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 2016 (2015: US$Nil). 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 adjusted capital at 31 March 2015 and 31 March 2016 is as follows:

	2016 US$ million	2015 US$ million
Total equity	**525.0**	540.8
Less: Proposed dividends	**(62.8)**	(153.2)
	462.2	387.6

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

19 Reserves

(a) The Group

Details of the movements in reserves of the Group during the years ended 31 March 2015 and 31 March 2016 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	Capital reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 2014		12.5	144.5	(0.5)	(1.0)	1.0	246.1	402.6
Changes in equity for the year ended 31 March 2015								
Comprehensive income								
Profit for the year		–	–	–	–	–	180.9	180.9
Total comprehensive income for the year		–	–	–	–	–	180.9	180.9
Final dividend in respect of the previous year		–	–	–	–	–	(160.8)	(160.8)
Interim dividend in respect of the current year	5	–	–	–	–	–	(42.7)	(42.7)
Shares issued under share option scheme	18(a)	–	3.4	–	–	–	–	3.4
Equity-settled share based payments		–	0.9	–	–	(0.9)	–	–
Share option lapsed during the period		–	–	–	–	(0.1)	0.1	–
Shares purchased for Share Purchase Scheme	18(c)	–	–	(1.7)	–	–	–	(1.7)
Vesting of shares of Share Purchase Scheme	18(c)	–	–	1.3	–	–	–	1.3
At 31 March 2015 and 1 April 2015		12.5	148.8	(0.9)	(1.0)	–	223.6	383.0
Changes in equity for the year ended 31 March 2016								
Comprehensive income								
Profit for the year		–	–	–	–	–	179.2	179.2
Total comprehensive income for the year		–	–	–	–	–	179.2	179.2
Final dividend in respect of the previous year	5	–	–	–	–	–	(153.2)	(153.2)
Interim dividend in respect of the current year	5	–	–	–	–	–	(42.7)	(42.7)
Shares purchased for Share Purchase Scheme	18(c)	–	–	(1.0)	–	–	–	(1.0)
Vesting of shares of Share Purchase Scheme	18(c)	–	–	1.4	–	–	–	1.4
At 31 March 2016		**12.5**	**148.8**	**(0.5)**	**(1.0)**	**–**	**206.9**	**366.7**

Reserves of the Company available for distribution to shareholders amounted to US$206.9 million (2015: US$223.6 million).

(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 capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note (S).

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.

20 Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate and currency 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

Financial assets which potentially subject the Group to credit risk consist principally of cash, short-term deposits and trade debtors. The Group's deposits and cash are placed with major financial institutions with sound credit ratings. Trade debtors are presented net of the allowance for doubtful debts. Credit risk with respect to trade debtors is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas. Accordingly, the Group has no significant concentration of credit risk. The Group's five largest customers, in aggregate accounted for approximately 32.2% (2015: 31.5%) of the Group's revenue during the year.

The Group manages these risks by monitoring credit ratings and limiting the aggregate risk to any individual counterparty. In addition, credit risk is mitigated by the use of credit insurance plans.

(b) Currency risk

The Group is exposed to foreign 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"), Japanese Yen ("JPY"), Australian dollars ("AUD") and Renminbi ("RMB").

(i) Exposure to currency risk

The Group enters into forward foreign exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on recognised assets and liabilities and 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 2016, the notional principal amounts of these outstanding forward foreign exchange contracts were US$102.0 million (2015: US$137.0 million) with net positive fair value of US$0.2 million (2015: US$5.4 million) recognised as derivative financial instruments.

In addition, the Group uses forward foreign exchange contracts to hedge the exchange rate fluctuation for the purchase of RMB and HKD in respect of highly probable forecast transactions for the Group's PRC and Hong Kong operations. Forward foreign exchange contracts are matched with anticipated future cash flows. As at 31 March 2016, the notional principal amounts of these outstanding forward foreign exchange contracts for hedging highly probable forecast transactions were US$184.9 million (2015: US$328.7 million) with net positive fair value of US$4.7 million (2015: US$0.1 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 2016, 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.

(ii) Sensitivity analysis

A sensitivity analysis was performed at 31 March 2016 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, JPY, AUD and RMB against USD would not have a material effect on the Group's profit after taxation and equity attributable to shareholders for the years ended 31 March 2015 and 31 March 2016.

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 2015.

(c) Interest rate risk

At 31 March 2015 and 31 March 2016, the Group had no bank borrowings.

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 and the periods in which they reprice or the maturity dates, if earlier.

Deposits and Cash

	2016		2015	
	Effective interest rate	**Within one year US$ million**	Effective interest rate	Within one year US$ million
Variable rate	**0.29%**	**268.0**	0.31%	199.8
Fixed rate	**1.94%**	**5.0**	1.90%	94.4

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$0.3 million for the years ended 31 March 2015 and 31 March 2016, 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.

(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 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.

20 Financial Risk Management and Fair Values (Continued)

(d) Liquidity risk (Continued)

The following tables detail the remaining contractual maturities at the end of 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				
	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	More than 5 years US$ million
At 31 March 2016						
Trade creditors	**188.4**	**188.4**	**188.4**	**–**	**–**	**–**
Other creditors and accruals	**156.3**	**156.3**	**156.3**	**–**	**–**	**–**
Derivatives settled gross:						
Forward foreign exchange contracts						
– cash flow hedge *(note 20(b)(i))*						
– outflow		**286.7**	**286.7**	**–**	**–**	**–**
– inflow		**(291.6)**	**(291.6)**	**–**	**–**	**–**
At 31 March 2015						
Trade creditors	186.1	186.1	186.1	–	–	–
Other creditors and accruals	155.4	155.4	155.4	–	–	–
Derivatives settled gross:						
Forward foreign exchange contracts						
– cash flow hedge *(note 20(b)(i))*						
– outflow		460.1	407.1	53.0	–	–
– inflow		(465.6)	(412.3)	(53.3)	–	–

(e) Fair values measurement

The fair values of trade debtors, deposits and cash and trade creditors and accruals approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the end of the reporting period. Other financial assets measured at fair value are not material.

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2015 and 31 March 2016.

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

At 31 March 2016, the fair values of the forward foreign exchange contracts included in financial assets and financial liabilities were US$5.5 million (2015: US$6.6 million) and US$0.6 million (2015: US$1.1 million) respectively. At 31 March 2016 and 31 March 2015, the fair values of all forward foreign exchange contracts were categorised as Level 2.

During the year ended 31 March 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 of the fair value hierarchy classifications.

The fair value of forward foreign exchange contracts in Level 2 is determined by using the forward exchange rates at the end of the reporting period and comparing them to the contractual rates.

21 Commitments

	2016 US$ million	2015 US$ million
(i) Capital commitments for property, plant and equipment		
Authorised but not contracted for	**29.6**	26.3
Contracted but not provided for	**14.5**	8.6
	44.1	34.9
(ii) Capital commitments for investment in a subsidiary		
Contracted but not provided for	**72.0**	–
	72.0	–
(iii) 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	**18.0**	16.1
Between one and two years	**17.7**	13.3
Between two and five years	**43.6**	35.0
In more than five years	**16.9**	15.7
	96.2	80.1

21 Commitments (Continued)

In November 2010 and November 2015, the Group entered into agreements with an independent third party in the PRC to lease factory premises in Houjie, Dongguan comprising several factory buildings. There are a number of leases which expire in 2022, 2030, 2031 and 2036 respectively. The lease expiring in 2022 can be cancelled on six months' notice without penalty. The leases expiring in 2030, 2031 and 2036 have a non-cancellable period of first ten years. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

In November 2010, September 2013, January 2014 and November 2015, the Group entered into an agreement with an independent third party in the PRC whereby the PRC party constructed in phases and leases to the Group a production facility in Liaobu, Dongguan. There are a number of leases which expire in 2030, 2031, 2035 and 2037 respectively. The leases expiring in 2030, 2035 and 2037 have a non-cancellable period of first ten years. The leases expiring in 2031 is not cancellable. The operating lease commitments above include total commitments over the non-cancellable period of the lease terms.

Under a Brand License Agreement expiring on 31 March 2020, a wholly-owned subsidiary of the Group is required to make royalty payments to AT&T Intellectual Property LLC, calculated as a percentage of net sales, as defined, of the relevant categories of products, subject to certain minimum aggregate royalty payments. The percentage of net sales payable varies over time and between products. There is no maximum royalty payment. The annual minimum royalty payment is determined based on a percentage of the preceding year's earned royalty payment (calculated based on the preceding year's net sales payable).

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 2016 amounted to US$1.4 million (2015: US$1.9 million), of which US$1.0 million and US$0.3 million are payable in the financial years ending 31 March 2017 and 2018 respectively and the remaining US$0.1 million is payable before the financial year ending 31 March 2021.

22 Contingent Liabilities

(a) The Directors have been advised that certain accusations of infringements of patents have been lodged against the Company and its subsidiaries. In the opinion of the legal counsel, it is too early to evaluate the outcome of these claims and provisions have been made only to the extent that the amounts can be reliably estimated.

Certain subsidiaries of the Group are involved in litigation arising in the ordinary course of their respective businesses. Having reviewed 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 off-line, 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. As the investigations are still in the early stages 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 2016, 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$353.6 million (2015: US$353.6 million). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was US$Nil.

As at 31 March 2016, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

23 Company-level Statement of Financial Position

	Note	**2016** **US$ million**	2015 US$ million
Non-current asset			
Investments in subsidiaries	23(a)	**227.5**	227.5
Current assets			
Amounts due from subsidiaries		**326.9**	340.2
Deposits and cash		**1.3**	0.6
		328.2	340.8
Current liabilities			
Amounts due to subsidiaries		**(188.4)**	(184.8)
Creditors and accruals		**(0.6)**	(0.5)
		(189.0)	(185.3)
Net current assets		**139.2**	155.5
Net assets		**366.7**	383.0
Capital and reserves			
Share capital	18(a)	**12.5**	12.5
Reserves	19(b)	**354.2**	370.5
Total equity		**366.7**	383.0

Approved and authorised for issue by the Board of Directors on 17 May 2016.

Allan WONG Chi Yun
Director

PANG King Fai
Director

23 Company-level Statement of Financial Position (Continued)

(a) Details of the Company's interest in those subsidiaries which materially affect the results or assets of the Group as at 31 March 2016 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
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$49,186,165	*100	Manufacturing of electronic products
VTech (Dongguan) Electronics Limited**	HK$64,800,000	*100	Manufacturing of electronic products
VTech (Dongguan) Electronics Industrial Co., Ltd.**	HK$18,725,011	*100	Manufacturing and sale of electronic products
VTech (Dongguan) Plastic Products Co., Ltd.**	HK$20,000,000	*100	Manufacturing of plastic products
VTech (Dongguan) Telecommunications Limited**	HK$52,500,000	*100	Manufacturing of telecommunication products
VTech (Qingyuan) Plastic & Electronics Co., Ltd**	HK$293,000,000	*100	Manufacturing of plastic products
VTech Electronics Industrial (Shenzhen) Co., Ltd**	HK$10,000,000	*100	Sale of telecommunication and electronic products
VTech Telecommunications (Shenzhen) Limited**	HK$5,000,000	*100	Sale of telecommunication products
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

* *Indirectly held by subsidiary companies*

** *Wholly-owned foreign enterprise*

23 Company-level Statement of Financial Position (Continued)

(b) 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 18(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 18(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.

24 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.

25 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet effective for the Annual Accounting Period ended 31 March 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and new interpretations which are not yet effective for the accounting period ended 31 March 2016 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

	Effective for accounting periods beginning on or after
Annual improvements to IFRSs 2012-2014 cycle	1 January 2016
Amendments to IAS 16, *Property, plant and equipment*, and IAS 38, *Intangible assets, Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments (2014)*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application.

26 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 17 and 20 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:

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.

Estimated useful lives of tangible assets

The Group estimates the useful lives of tangible assets based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of tangible assets would increase depreciation charges and decrease non-current assets.

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. The Group estimates the asset's recoverable amount when any such indication exists. 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.

Deferred tax assets

The Group reviews the carrying amounts of deferred taxes at the end of each reporting period and recognises the amount of deferred tax assets to the extent that it is probable that sufficient taxable income will be available to allow the deferred tax assets to be utilised. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised and changes in estimates may affect profit or loss in future years.

27 Non-Adjusting Events After the Reporting Period

On 5 February 2016, Bonita Merger Sub, L.L.C. ("Bonita Merger Sub"), an indirect wholly-owned subsidiary of the Company, entered into a merger agreement with LeapFrog Enterprises, Inc. ("LeapFrog"), a developer of educational entertainment for children, to acquire LeapFrog by way of merger. Under the terms of the merger agreement, the Group agreed to acquire 100% of the outstanding common stock of LeapFrog at US$1.00 per share through an all cash tender offer followed by a second-step merger. The tender offer commenced on 3 March 2016 and expired on 1 April 2016.

The transaction was completed on 4 April 2016 with total consideration of approximately US$72.0 million, upon which LeapFrog has become an indirect wholly-owned subsidiary of the Company.

The Group is assessing the fair value of assets and liabilities of the acquired business and it is impracticable to disclose the financial impact at this stage.

	Consolidated statement of financial position as at 31 March				
	2012 US$ million	2013 US$ million	2014 US$ million	2015 US$ million	**2016 US$ million**
Non-current assets					
Tangible assets	91.0	88.4	68.6	67.0	**68.4**
Leasehold land payments	5.1	5.2	5.1	5.0	**4.8**
Other non-current assets	6.1	4.7	2.6	4.6	**10.4**
	102.2	98.3	76.3	76.6	**83.6**
Current assets					
Stocks	239.2	276.9	265.9	290.2	**285.4**
Debtors, deposits and prepayments	244.2	257.1	235.8	259.9	**266.2**
Deposits and cash	326.5	308.6	322.9	294.2	**273.0**
Other current assets	0.8	0.4	0.9	–	**2.3**
	810.7	843.0	825.5	844.3	**826.9**
Current liabilities	(350.9)	(366.0)	(337.4)	(377.1)	**(380.4)**
Net current assets	459.8	477.0	488.1	467.2	**446.5**
Total assets less current liabilities	562.0	575.3	564.4	543.8	**530.1**
Non-current liabilities					
Net obligation on defined benefit scheme	–	(6.5)	(2.0)	(3.0)	**(5.1)**
Deferred tax liabilities	(5.8)	(4.5)	–	–	**–**
	(5.8)	(11.0)	(2.0)	(3.0)	**(5.1)**
Net assets/Total equity	556.2	564.3	562.4	540.8	**525.0**

	Consolidated statement of profit or loss for the years ended 31 March				
	2012 US$ million	2013 US$ million	2014 US$ million	2015 US$ million	**2016 US$ million**
Revenue	1,784.5	1,858.0	1,898.9	1,879.8	**1,856.5**
Profit before taxation	211.6	225.6	228.0	221.7	**203.1**
Taxation	(19.7)	(24.1)	(24.2)	(23.6)	**(21.7)**
Profit for the year and attributable to shareholders of the Company	191.9	201.5	203.8	198.1	**181.4**
Basic earnings per share (US cents)	77.0	80.6	81.3	78.9	**72.2**

Board of Directors

Executive Directors

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

Independent Non-executive Directors

William FUNG Kwok Lun
Michael TIEN Puk Sun
Patrick WANG Shui Chung
WONG Kai Man

Audit Committee

WONG Kai Man *(Chairman)*
William FUNG Kwok Lun
Michael TIEN Puk Sun

Nomination Committee

William FUNG Kwok Lun *(Chairman)*
Michael TIEN Puk Sun
Patrick WANG Shui Chung
WONG Kai Man
Allan WONG Chi Yun

Remuneration Committee

Michael TIEN Puk Sun *(Chairman)*
William FUNG Kwok Lun
WONG Kai Man

Risk Management and Sustainability Committee

Allan WONG Chi Yun *(Chairman)*
PANG King Fai
Andy LEUNG Hon Kwong
WONG Kai Man
Shereen TONG Ka Hung
CHANG Yu Wai

Company Secretary

CHANG Yu Wai

Registered Office

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Bermuda

Principal Office

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Principal Bankers

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Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Auditor

KPMG
Certified Public Accountants

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A Chinese translation of this annual report may be obtained on request from Computershare Hong Kong Investor Services Limited of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. If there are any discrepancies between the Chinese translation and the English version of this report and accounts, the English version shall prevail.

本年報備有中文譯本，請向香港中央證券登記有限公司位於香港灣仔皇后大道東183號合和中心17樓1712-16號舖索取。
本年報及賬目之中文譯本與英文本如有任何歧義，概以英文本為準。

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