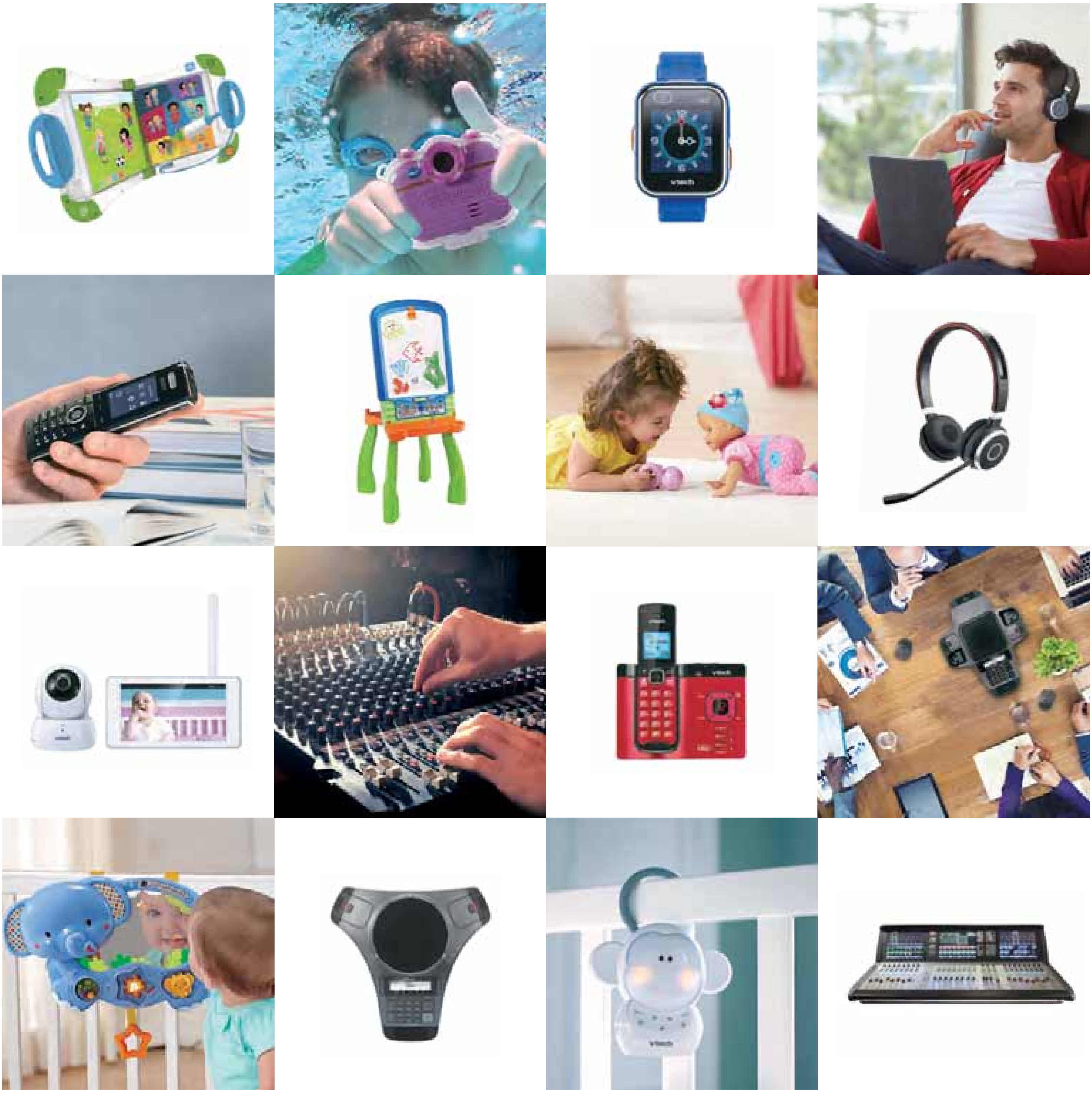
VTech Holdings Limited

HKSE : 303

Annual Report 2017



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

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

With headquarters in Hong Kong and state-of-the-art manufacturing facilities in mainland China, VTech has approximately 27,000 employees in its operations across 13 countries and regions, including about 1,600 R&D professionals in R&D centres in Hong Kong, mainland China, Germany, the US, Canada and Taiwan. This network allows VTech to stay abreast of the latest technology and market trends throughout the world, while maintaining a highly competitive cost structure.

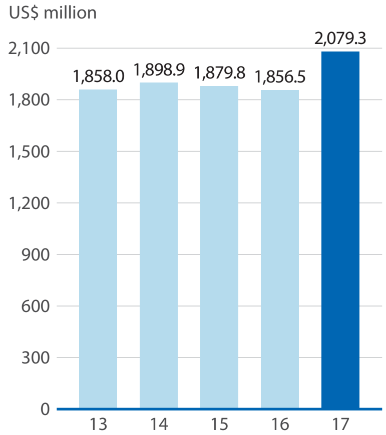
VTech invests significantly in R&D and launches numerous new products each year under its portfolio of strong brands, supported by a global distribution network of leading traditional and online retailers.

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

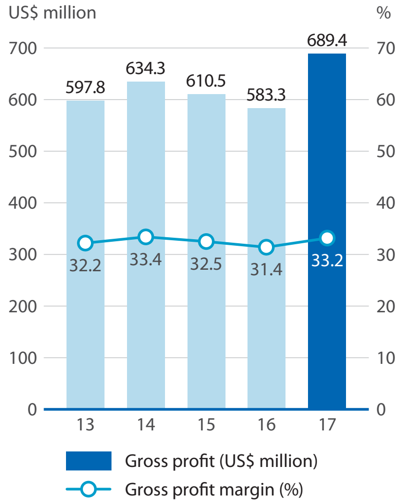
For the year ended 31 March	2017	2016	Change
Operating results (US$ million)			
Revenue	**2,079.3**	1,856.5	12.0%
Gross profit	**689.4**	583.3	18.2%
Operating profit	**200.0**	202.3	-1.1%
Profit before taxation	**200.1**	203.1	-1.5%
Profit attributable to shareholders of the Company	**179.0**	181.4	-1.3%
Financial position (US$ million)			
Cash generated from operations	**202.0**	242.8	-16.8%
Deposits and cash	**268.8**	273.0	-1.5%
Shareholders' funds	**584.7**	525.0	11.4%
Per share data (US cents)			
Earnings per share – basic	**71.3**	72.2	-1.2%
Earnings per share – diluted	**71.3**	72.2	-1.2%
Dividend per share – interim and final	**70.0**	42.0	66.7%
Other data (US$ million)			
Capital expenditure	**39.0**	38.3	1.8%
R&D expenditure	**77.2**	56.3	37.1%
Key ratios (%)			
Gross profit margin	**33.2**	31.4	1.8% pts
Operating profit margin	**9.6**	10.9	-1.3% pts
Net profit margin*	**8.6**	9.8	-1.2% pts
EBITDA/Revenue	**11.3**	12.8	-1.5% pts
Return on shareholders' funds	**30.6**	34.6	-4.0% pts

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

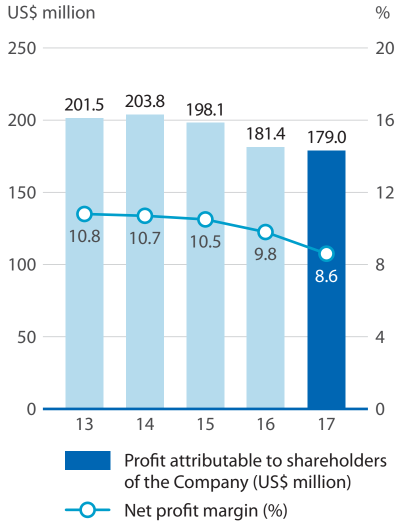
Group Revenue in Last 5 Years



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,

In the financial year 2017 VTech achieved record revenue, surpassing the US$2 billion mark. A relatively favourable cost environment saw gross margin improve, although profit was affected by one-off costs associated with the integration of LeapFrog Enterprises, Inc. (LeapFrog). The Group also laid the ground for future growth, with the completion of three strategic acquisitions.

Results and Dividend

Group revenue for the year ended 31 March 2017 increased by 12.0% to US$2,079.3 million, supported by higher sales in North America, Europe and Asia Pacific.

Profit attributable to shareholders of the Company decreased by 1.3% to US$179.0 million. The fall in profit was mainly due to the one-off costs associated with the acquisition and integration of LeapFrog, including the professional and legal costs associated with the investigation by the UK's Competition & Markets Authority. This investigation was initiated in April 2016, with final and unconditional approval given in January 2017. The expenses related to the cyber-attack that occurred in November 2015 also contributed to the decline in profit.

Basic earnings per share fell by 1.2% to US71.3 cents, compared to US72.2 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US53.0 cents per ordinary share, providing a full-year dividend of US70.0 cents per ordinary share. This 66.7% increase from the US42.0 cents declared in the previous financial year reflects a rise of the dividend payout ratio from 58.2% to 98.2%, a return to its historic level.

Costs

For the financial year 2017, the gross profit margin of the Group improved to 33.2%, from 31.4% in the financial year 2016. This was mainly due to the change in product mix, a relatively favourable cost environment and productivity gains.

Our Business

The Group completed three strategic acquisitions during the financial year 2017.

The acquisition of LeapFrog, a leading developer of educational entertainment for children, was completed in April 2016. LeapFrog is a strong educational toy brand, and its product ranges complement those of VTech. The acquisition allows VTech to offer the broadest portfolio of products that enhance the education and development of children around the world, and positions VTech for higher growth.

LeapFrog's industry-leading content development, education, product marketing, consumer insight and infrastructure teams have been retained at its office in California, where they continue to develop the curriculum-based educational content for which the company is renowned. Its back-end operations have been integrated into VTech's global organisation. Production has been consolidated, with the majority of LeapFrog products now being manufactured in-house.

Combining VTech and LeapFrog products, the share of total electronic learning products (ELPs) revenue from platform products, including related software, increased to 23% in the financial year 2017, from 16% in the previous financial year.

Standalone products continued their strong performance. Growth was led by higher sales of core VTech infant, toddler and preschool products. There was also a contribution from LeapFrog standalone toys. This has reaffirmed VTech's leadership position in the industry. In the calendar year 2016, VTech strengthened its position globally as the number one supplier of electronic learning toys from infancy through toddler and preschool[1].

In November 2016, the Group completed the acquisition of Snom Technology GmbH (Snom, formerly known as Snom Technology AG), a German company which is a pioneer in Voice over IP (VoIP) phone development. There will be strong synergies from combining Snom's technical expertise and well-established sales channels in Europe with VTech's engineering and manufacturing capabilities. This acquisition will enable VTech to become a major player in the growing market for VoIP phones.

This development follows the Group's strategy of recent years, which has seen telecommunication (TEL) products expanding outside the residential phones sector. During the financial year 2017, sales of residential phones declined by 12.9% year-on-year, partially offset by a 22.4% growth in commercial phones and other telecommunication products. As a result, the share of commercial phones and other telecommunication products rose to 34% of total TEL products revenue, from 27% in the previous financial year.

The good performance of commercial phones and other telecommunication products came from higher sales of baby monitors, VoIP phones, hotel phones, headsets, wireless monitoring systems and conference phones. This was the result of more placements and the launch of new products, such as baby monitors featuring a video camera with interchangeable standard and wide-angle lenses and headsets designed for the professional trucker market.

Contract Manufacturing Services (CMS) once again delivered good results in the financial year 2017. Its growth outpaced the global EMS (Electronic Manufacturing Services) market, in which the top 50 providers grew by 0.3% in the calendar year 2016[2]. A strong reputation, deep manufacturing know-how and a stable management team have enabled CMS to achieve 15 years of uninterrupted growth. This exceptional performance further testifies to VTech's strategy of focusing on professional, industrial and commercial products.

In October 2015, the Group signed an agreement to acquire the fixed assets of Kenny Precision Products (Shenzhen) Company Limited. With the acquired fixed assets, VTech established its own facilities in Liaobu, Dongguan for manufacturing high precision metal tooling and parts. This is entirely new expertise for VTech. It not only extends the supply chain vertically, thereby improving the Group's cost base, but also brings a new product category to CMS that is an additional source of revenue. The new facilities have commenced operations and started contributing to CMS revenue in the fourth quarter of the financial year 2017.

1 *Source: NPD Group, Retail Tracking Service and Global Market Share Estimates by MarketWise Consumer Insights, LLC. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of toddler electronic learning, toddler figures, playsets and accessories, preschool electronic learning, electronic entertainment (excluding tablets) and walkers for the 12 months ending December 2016*

2 *Source: Manufacturing Market Insider, March 2017*

Group revenue is expected to be higher in the financial year 2018, with sales increases across all three product lines.

Outlook

Group revenue is expected to be higher in the financial year 2018, with sales increases across all three product lines. The trend in gross margin is more difficult to predict. There are likely to be strong headwinds from foreign exchange movements. Cost of materials is also expected to be higher. Meanwhile, direct labour costs and manufacturing overheads as a percentage of Group revenue are forecast to decrease slightly.

The growth in ELPs will be driven by higher sales of both standalone and platform products. Standalone products will be boosted by the expansion of the VTech baby, infant, toddler and preschool lines, supported by the launch of more learning toys under the LeapFrog brand. Growth in platform products will be driven by the introduction of new platforms. The VTech brand will see launches of new children's communication devices and Kidizoom® Smartwatch. For LeapFrog, the new LeapPad™ Ultimate, a first tablet for children, will be complemented by LeapFrog Epic™ (Academy edition), an enhanced version of the tablet that caters to older children. The LeapStart™ interactive learning platform will also expand.

Leveraging LeapFrog's expertise in education further, the Group plans to launch LeapFrog Academy™ in major English-speaking countries in the second half of the calendar year 2017. This is a subscription-based guided learning system designed by educational experts. At launch, it will offer over 1,000 curriculum based activities for children aged 3 to 6 years.

TEL products are also expected to achieve growth in the financial year 2018, with higher sales of commercial phones and other telecommunication products. The acquisition of Snom will be a key driver. Its strong brand and extensive sales network, particularly in Europe, will accelerate the Group's introduction of new VoIP phones into this growing market. The migration from traditional Public Switched Telephone Network (PSTN) to VoIP telephony is supporting the much wider adoption of CAT-iq (Cordless Advanced Technology – internet and quality) handsets, particularly via major telecoms operators. This will boost sales of CAT-iq products globally. The strong momentum in VTech baby monitors will be maintained through the introduction of the innovative new models and increased product placements. Hotel phones and conference phones will also continue their positive trend. Although sales of residential phones will again decline, the pace will moderate as VTech gains more shelf space with US retailers.

CMS is also positioned for growth. Sales are expected to rise on the back of increasing orders from existing customers in professional audio, hearables, industrial products, solid-state lighting as well as medical and health products, offsetting a further decline in switching mode power supplies. The medical and health products category is expanding rapidly and showing particular promise. To target the growing opportunities, a new strategic business unit for medical and health products has been set up. VTech began producing entire diagnostic ultrasound systems for a Japanese customer in the second half of the financial year 2017 and orders have been ramping up for the financial year 2018. The Group is also beginning to produce hearing aids for a European customer, adding another product to this category. Contributing to the overall momentum in CMS, there will be a full-year sales contribution from the newly acquired high precision metal parts business.

Finally, I wish to thank my fellow directors and our teams around the world for their tremendously hard work in successfully completing the three acquisitions and integrating the businesses during the year. I also want to thank our colleagues for their dedication and our business partners for their valued support. With our strong commitment to sustainability, VTech will continue to bring out innovative products, increase market share, expand geographically and strive for operational excellence to enhance shareholder value.

Allan Wong Chi Yun
Chairman

Hong Kong, 16 May 2017

Financial Overview

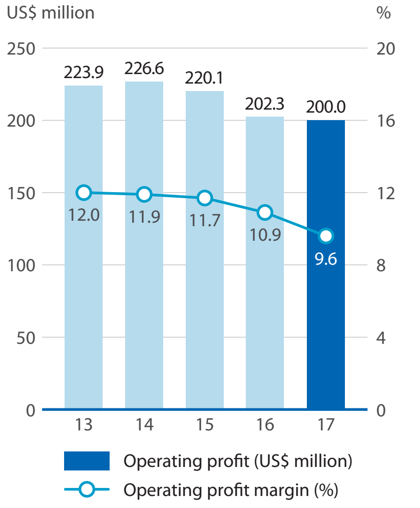
For the year ended 31 March 2017	2017 US$ million	2016 US$ million	Change US$ million
Revenue	**2,079.3**	1,856.5	222.8
Gross profit	**689.4**	583.3	106.1
Gross profit margin	**33.2%**	31.4%	
Total operating expenses	**(489.4)**	(381.0)	(108.4)
Total operating expenses as a percentage of revenue	**23.6%**	20.5%	
Operating profit	**200.0**	202.3	(2.3)
Operating profit margin	**9.6%**	10.9%	
Net finance income	**0.1**	0.8	(0.7)
Profit before taxation	**200.1**	203.1	(3.0)
Taxation	**(21.1)**	(21.7)	0.6
Effective tax rate	**10.5%**	10.7%	
Profit for the year and attributable to shareholders of the Company	**179.0**	181.4	(2.4)
Net profit margin	**8.6%**	9.8%	

Revenue

Group revenue for the year ended 31 March 2017 rose by 12.0% to US$2,079.3 million compared with the previous financial year. The increase in revenue was largely driven by the higher sales in North America, Europe and Asia Pacific, which offset the decrease in revenue in Other Regions. The acquisition of LeapFrog on 4 April 2016 and Snom on 21 November 2016 also contributed to the sales growth compared with the last financial year.

	2017		2016		Increase/(decrease)	
	US$ million	%	US$ million	%	US$ million	%
North America	**1,016.2**	**48.9%**	878.3	47.3%	137.9	15.7%
Europe	**867.8**	**41.7%**	795.9	42.9%	71.9	9.0%
Asia Pacific	**148.6**	**7.2%**	129.0	6.9%	19.6	15.2%
Other Regions	**46.7**	**2.2%**	53.3	2.9%	(6.6)	-12.4%
	2,079.3	**100.0%**	1,856.5	100.0%	222.8	12.0%

Operating Profit and Operating Profit Margin in Last 5 Years



Gross Profit/Margin

Gross profit for the financial year 2017 was US$689.4 million, an increase of US$106.1 million or 18.2% compared to the US$583.3 million recorded in the previous financial year. Gross profit margin for the year also increased from 31.4% to 33.2%. The increase in gross profit and gross profit margin was mainly attributable to the gross profit contribution from LeapFrog and Snom, and the depreciation of Renminbi against the US dollar during the financial year. Cost of materials as percentage of Group revenue was also lower than the last financial year as material costs decreased during the period. As for the direct labour costs and manufacturing overheads as percentage of Group revenue, they were also lower than the same period last year as the Group continued to reduce workforce through automation and process improvement, with number of workers falling by about 3% year-on-year.

Operating Profit/Margin

Operating profit for the year ended 31 March 2017 was US$200.0 million, a decrease of US$2.3 million or 1.1% compared with the previous financial year. Operating profit margin also reduced from 10.9% to 9.6%. The reduction in both operating profit and operating profit margin was mainly due to the integration of LeapFrog and the related restructuring costs incurred during the financial year 2017. The ratio of EBITDA to revenue declined from 12.8% to 11.3%.

Total operating expenses were US$489.4 million, an increase of 28.5% over the last financial year. Total operating expenses as a percentage of Group revenue also increased from 20.5% to 23.6%.

Selling and distribution costs increased from US$254.3 million to US$319.0 million, an increase of 25.4% compared with the last financial year. It was mainly attributable to the consolidation of LeapFrog's business and operation. As a percentage of Group revenue, selling and distribution costs also increased from 13.7% to 15.3%.

Administrative and other operating expenses increased from US$70.4 million to US$93.2 million over the same period last year. The increase was mainly due to the consolidation of LeapFrog and the associated restructuring costs as well as the higher employee related costs compared with the last financial year. The expenses related to the cyber-attack happened in November 2015 and the investigation conducted by United Kingdom Competition & Markets Authority from April 2016 to January 2017 were also incurred during the financial year 2017. The net exchange loss arising from the Group's global operations in the ordinary course of business was US$0.4 million, as compared with an exchange loss of US$0.3 million in the last financial year.

Administrative and other operating expenses as a percentage of Group revenue increased from 3.8% to 4.5%.

During the financial year 2017, the research and development expenses were US$77.2 million, an increase of 37.1% compared with the previous financial year. It was mainly attributable to the acquisition of LeapFrog and the related restructuring costs. Research and development expenses as a percentage of Group revenue also increased from 3.0% to 3.7%.

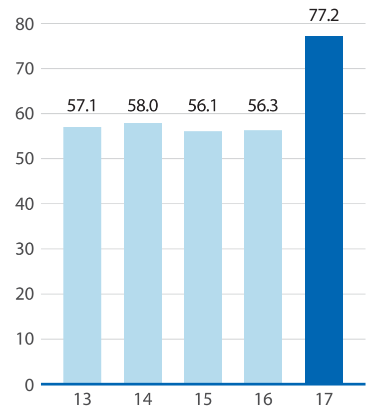
Profit Attributable to Shareholders and Earnings Per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2017 was US$179.0 million, a decrease of US$2.4 million or 1.3% as compared to the last financial year. Net profit margin also reduced from 9.8% to 8.6%.

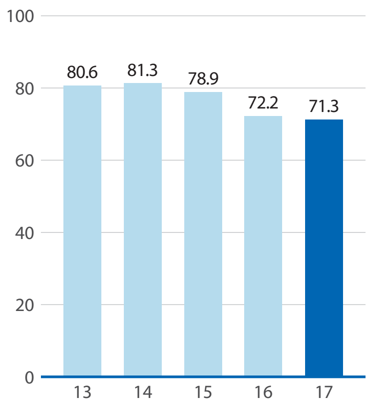
Taxation charges reduced from US$21.7 million in the last financial year to US$21.1 million in the financial year 2017. The effective tax rate decreased from 10.7% to 10.5%.

Basic earnings per share for the year ended 31 March 2017 were US71.3 cents as compared to US72.2 cents in the previous financial year.

Group R&D Expenditure in Last 5 Years



Basic Earnings Per Share in Last 5 Years



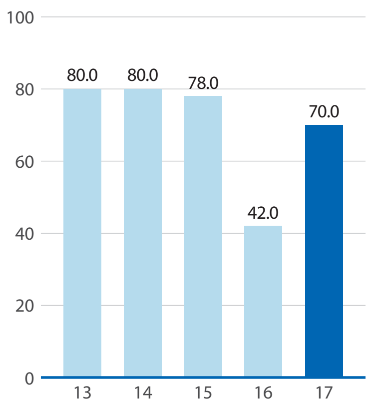
Dividends

During the financial year 2017, 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 US53.0 cents per share, which is estimated to be US$133.1 million.

	2017 US cents	2016 US cents
Dividend per share		
Interim	**17.0**	17.0
Final*	**53.0**	25.0
Total	**70.0**	42.0

* Final dividend proposed after the end of the reporting period

Dividend Per Share in Last 5 Years



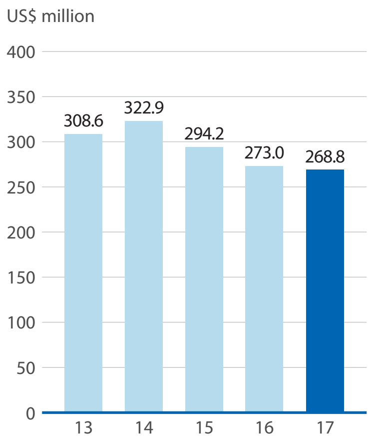
Liquidity and Financial Resources

Shareholders' funds as at 31 March 2017 were US$584.7 million, an increase of 11.4% from US$525.0 million in the last financial year. Shareholders' funds per share increased by 11.5% from US$2.09 to US$2.33.

The Group's financial resources remain strong. As at 31 March 2017, the Group had net cash of US$267.1 million, a decrease of 2.2% as compared to US$273.0 million as of 31 March 2016. It was mainly due to the payment for acquisition of LeapFrog and Snom, and the reduction in cash generated from operating activities. As at 31 March 2017, the Group had bank loan of US$1.7 million acquired from Snom. The Group had no borrowings as at 31 March 2016.

Deposits and Cash in Last 5 Years

(As at 31 March)



Analysis of Cash Flow from Operations

	2017 US$ million	2016 US$ million	Change US$ million
Operating profit	**200.0**	202.3	(2.3)
Depreciation and amortisation	**34.8**	35.1	(0.3)
EBITDA	**234.8**	237.4	(2.6)
Gain on disposal of tangible assets	**(0.7)**	–	(0.7)
Share-based payment expenses	**5.6**	–	5.6
Working capital change	**(37.7)**	5.4	(43.1)
Cash generated from operations	**202.0**	242.8	(40.8)

The Group's cash generated from operations for the year ended 31 March 2017 was US$202.0 million, a decrease of 16.8% as compared to US$242.8 million in the previous financial year. The reduction was mainly attributable to the decrease in EBITDA in the financial year 2017 and the higher working capital investment compared with the previous financial year.

Working Capital Change

	Balance as at 31 March 2016 US$ million	Acquisition of LeapFrog and Snom US$ million	Hedging and others US$ million	Working capital change per cash flow US$ million	**Balance as at 31 March 2017 US$ million**
Stocks	285.4	25.0	–	14.5	**324.9**
Trade debtors	230.3	27.8	–	17.3	**275.4**
Other debtors, deposits and prepayments	35.9	11.3	0.9	2.1	**50.2**
Trade creditors	(188.4)	(12.8)	–	(26.0)	**(227.2)**
Other creditors and accruals	(156.9)	(61.1)	(0.1)	23.1	**(195.0)**
Provisions for defective goods returns and other liabilities	(31.5)	(10.5)	–	7.1	**(34.9)**
Net obligations on defined benefit scheme	(5.1)	–	3.0	(0.4)	**(2.5)**
Total working capital	**169.7**	**(20.3)**	**3.8**	**37.7**	**190.9**

Stocks as of 31 March 2017 were US$324.9 million, increased from US$285.4 million as of 31 March 2016. The turnover days also increased from 93 days to 96 days. The higher stock level was largely due to the acquisition of LeapFrog and Snom, and the increased demand for the Group's products in the first quarter of the financial year 2018. Furthermore, we had arranged early production of the Group's products in order to better utilise the Group's production capacities.

As at 31 March 2017 and 2016 All figures are in US$ million unless stated otherwise	2017	2016
Stocks	**324.9**	285.4
Average stocks as a percentage of Group revenue	**14.7%**	15.5%
Turnover days	**96 days**	93 days

Trade debtors as of 31 March 2017 were US$275.4 million, increased from US$230.3 million as of 31 March 2016. Debtor turnover days also increased from 63 days to 64 days. The higher trade debtor balance as at 31 March 2017 was mainly due to an increase in revenue in the fourth quarter of the financial year 2017 compared with the corresponding period of the previous financial year. The Group has tight management on credit exposure. The overdue balances greater than 30 days accounted for 2.0% of the gross trade debtors as of 31 March 2017.

As at 31 March 2017 and 2016 All figures are in US$ million unless stated otherwise	2017	2016
Trade debtors	**275.4**	230.3
Average trade debtors as a percentage of Group revenue	**12.2%**	12.2%
Turnover days	**64 days**	63 days

Other debtors, deposits and prepayments as of 31 March 2017 were US$50.2 million, increased from US$35.9 million as of 31 March 2016. It was mainly attributable to the acquisition of LeapFrog and Snom.

Trade creditors as of 31 March 2017 were US$227.2 million, as compared to US$188.4 million as of 31 March 2016. Creditor turnover days was 93 days, same as last financial year.

As at 31 March 2017 and 2016 All figures are in US$ million unless stated otherwise	2017	2016
Trade creditors	**227.2**	188.4
Turnover days	**93 days**	93 days

Other creditors and accruals as of 31 March 2017 were US$195.0 million, increased from US$156.9 million as of 31 March 2016, which was mainly due to the acquisition of LeapFrog and Snom.

Provisions for defective goods returns and other liabilities as of 31 March 2017 were US$34.9 million, as compared to US$31.5 million as of 31 March 2016.

Net obligations on defined benefit scheme as of 31 March 2017 were US$2.5 million, as compared to US$5.1 million as of 31 March 2016. The decrease 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 2017, the Group invested US$39.0 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.

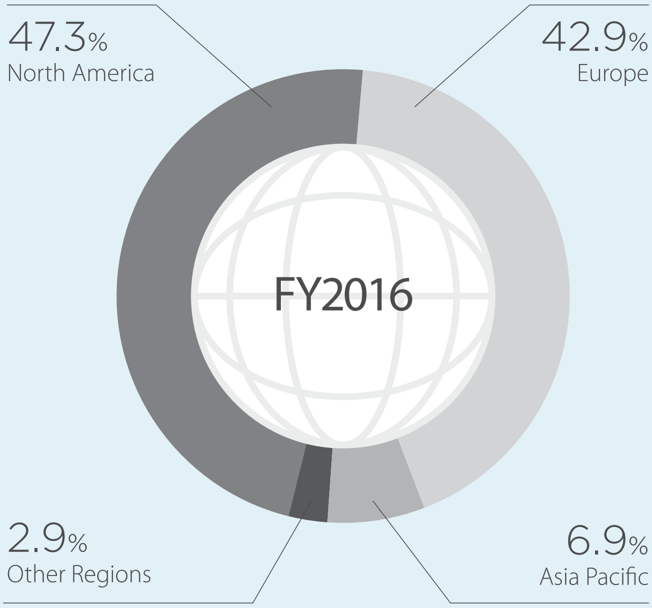
Capital Commitments and Contingencies

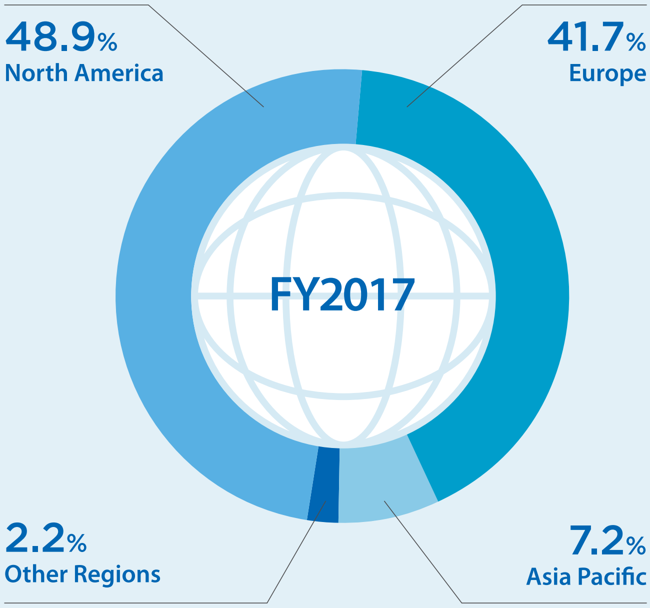
In the financial year 2018, the Group will incur capital expenditure of US$38.9 million for ongoing business operations.

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

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

Group Revenue by Region





North America

US$ million 1,016.2 ▲ 15.7% year-on-year

Europe

US$ million 867.8 ▲ 9.0% year-on-year

Asia Pacific

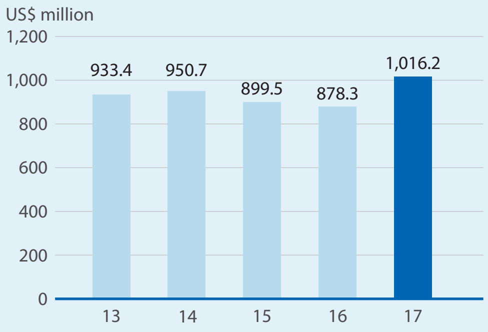
US$ million 148.6 ▲ 15.2% year-on-year

Other Regions

US$ million 46.7 ▼ 12.4% year-on-year

North America

Revenue in North America in Last 5 Years



Group revenue in North America increased by 15.7% to US$1,016.2 million in the financial year 2017 as higher sales of ELPs and CMS offset lower revenue from TEL products. North America remained VTech's largest market, accounting for 48.9% of Group revenue.

ELPs revenue in North America rose by 44.7% to US$454.9 million. The increase was driven in part by the sales contribution from LeapFrog, following completion of the acquisition in April 2016. Higher sales of VTech standalone products also contributed to the increase. The addition of LeapFrog strengthened VTech's position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[3].

In standalone products, growth was driven by higher sales of core VTech infant, toddler and preschool products, augmented by contributions from LeapFrog standalone toys. Among notable successes, the VTech Sit-to-Stand Learning Walker™ and Smart Shots Sports Center™ were the top two best-selling infant and toddler toys in the US in the calendar year 2016[4]. Sales of the Go! Go! Smart family of products were down as growth in the Go! Go! Smart Friends® line was offset by lower revenues from Go! Go! Smart Wheels® and Go! Go! Smart Animals®.

Sales of platform products were up as a result of new VTech and LeapFrog product launches, together with the combined offering of children's educational tablets under both brands. VTech's Touch and Learn Activity Desk™ Deluxe and LeapFrog's LeapStart Interactive Learning System hit US retail shelves in August 2016 and were favourably received by the market. They won a total of 15 top industry accolades, including the National Parenting Center's Seal of Approval and being named to TTPM's "Most Wanted" list. Among children's educational tablets, LeapFrog Epic was named the "Best Tablet" by Kidscreen. Sales of Kidizoom Smartwatch declined as the market awaited the launch of the next generation of products.

TEL products revenue in North America decreased by 1.5% to US$365.7 million. Continued growth in commercial phones and other telecommunication products was insufficient to offset declining sales of residential phones.

The drop in sales of residential phones reflected a further contraction of the fixed-line telephone market. Nonetheless, VTech maintained its leading position in the US residential phones market[5].

The growth in commercial phones and other telecommunication products was driven by higher sales of baby monitors, hotel phones, headsets, wireless monitoring systems, conference phones and VoIP phones. Baby monitors benefited from more placements and new product launches. A new model featuring a video camera with interchangeable standard and wide-angle lenses proved very popular with consumers and sold particularly well. In hotel phones, VTech's growing reputation enabled it to win new projects and increase market share. Sales of headsets were boosted by new Bluetooth models specially designed for the professional trucker market. The VTech branded ErisStation®, a conference phone with wireless microphones, and ErisTerminal®, the VoIP business phone system, saw steady growth.

CMS revenue in North America increased by 1.6% to US$195.6 million, as higher sales of industrial products, solid-state lighting and home appliances offset lower sales of professional audio equipment and communication products. Industrial products and home appliances saw more orders from existing customers, and the Group also gained additional business from their parent companies. Sales of solid-state lighting increased because of a sales contribution from a new customer and an existing customer transferring a new product range to VTech. By contrast, sales of professional audio equipment declined as a major customer placed fewer orders, owing to excess inventory and delays to new projects. Communication products sales decreased on lower orders of a home security system.

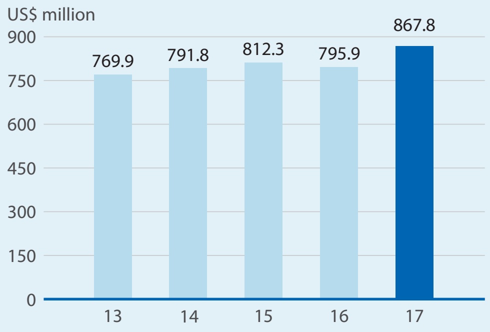
[3] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the 12 months ending December 2016*

[4] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of early electronic learning, toddler figures/playsets & accessories, other infant toys, infant plush, bath toys, other toddler toys, playnests/playgyms, walkers, rattle & toy teether/toy pacifier and mobiles for the 12 months ending December 2016*

[5] *Source: MarketWise Consumer Insights, LLC*

Europe

Revenue in Europe in Last 5 Years



Group revenue in Europe increased by 9.0% to US$867.8 million in the financial year 2017, as higher sales of ELPs and CMS offset a decline in TEL products. Europe was VTech's second largest market, accounting for 41.7% of Group revenue.

ELPs revenue in Europe rose by 9.8% to US$357.4 million. The sales increase was attributable to growth in VTech standalone products and sales contributions from LeapFrog. Geographically, all of the Group's key Western European markets, namely France, the UK, Germany, the Netherlands and Spain, recorded sales increases. VTech strengthened its position as the number one infant and toddler toy manufacturer in France, the UK and Germany in the calendar year 2016[6].

Growth in standalone products was driven by higher sales of the core VTech infant, toddler and preschool products, Kidizoom Camera, as well as the Kidi and the Little Love® lines. It was also supported by the consolidation of LeapFrog sales. Sales of the Toot-Toot family of products were down. During the financial year 2017, VTech ELPs won more than 30 leading industry awards across continental Europe, including three "2016 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine in France.

Platform products sales in Europe grew slightly in the financial year 2017, mainly due to new product launches and the sales contribution from LeapFrog. During the financial year, the second generation of Kidizoom Smartwatch was rolled out to all major European countries and LeapStart was launched in the UK. Sales of children's educational tablets held steady, with LeapFrog branded tablets added to the portfolio.

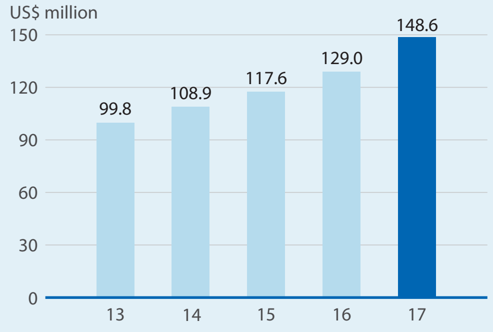
Revenue from TEL products in Europe decreased by 5.5% to US$128.9 million. Sales of residential phones fell because of the contraction of the fixed-line telephone market. In contrast, commercial phones and other telecommunication products saw further growth. Sales of VoIP phones increased on the contribution from Snom, following completion of this acquisition in November 2016. There were also higher sales of hotel phones as VTech's reputation continues to grow in the industry. Sales of integrated access devices also increased, due to new product launches by customers in the second half. Sales of CAT-iq handsets were lower, however, as a major customer changed its sales and marketing strategy on product bundling. Orders for baby monitors declined due to the delayed launch of new products by some customers.

CMS revenue in Europe increased by 14.2% to US$381.5 million, with higher sales of hearables, industrial products and medical and health products. Hearables benefited from rising sales of the world's first wireless smart earphones and as customers' other products were received well by the market. In industrial products, the sales growth was led by smart meters for the UK market as utility suppliers, backed by Government regulation, encouraged households to install the devices to track their energy consumption. Medical and health products sales increased as the Group started shipping hearing aids to a European customer. Sales of professional audio equipment were stable, as more orders for USB audio interface products offset lower demand for audio mixers. Switching mode power supplies and home appliances, however, saw their sales decline. The change of ownership of a switching mode power supplies customer led to production being moved back in-house, while lower demand from end consumers affected the home appliances business of existing customers.

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

Asia Pacific

Revenue in Asia Pacific in Last 5 Years



Group revenue in Asia Pacific increased by 15.2% to US$148.6 million in the financial year 2017, with higher sales in all three product lines. Asia Pacific represented 7.2% of Group revenue.

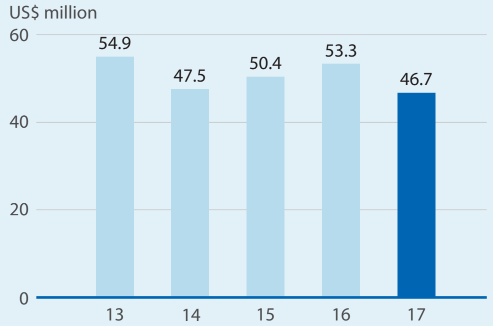
Revenue from ELPs in Asia Pacific was up 28.9% to US$52.7 million, as growth in Australia, South Korea and mainland China offset a decline in Japan. VTech achieved significant growth and market share gains in Australia following the establishment of its own office in the country. The good performance in South Korea resulted from increased sales efforts and product launches. In mainland China, sales growth was held back by the depreciation of the Renminbi. Sales in Japan were affected by excess inventory at one customer. LeapFrog branded products contributed to overall sales growth in the region.

TEL products revenue in Asia Pacific rose by 5.8% to US$38.1 million. Higher sales in Japan, Hong Kong, India and South Korea offset lower sales in Australia. During the financial year, VTech increased sales further with a new customer in Japan. In Hong Kong, VTech's 3-in-1 connected home system was rolled out in the second half with a key broadband service provider. In India, the Group won more orders for cordless phones from a key customer, while in South Korea VTech started shipping VoIP business phone systems to a new customer in the second half. Sales declined in Australia as a direct result of the contraction of the fixed-line telephone market, though sales of baby monitors continued to grow.

CMS revenue in Asia Pacific rose by 10.9% to US$57.8 million, primarily driven by higher sales of home appliances, medical and health products, solid-state lighting and professional audio equipment. Home appliances benefited from good sell-through of a customer's products. For medical and health products, the Group started producing and shipping entire diagnostic ultrasound systems to a Japanese customer in the second half. Professional audio equipment and solid-state lighting posted higher sales as existing customers sold more products to mainland China. Communication products and hearables, however, saw sales declines.

Other Regions

Revenue in Other Regions in Last 5 Years



Group revenue in Other Regions, namely Latin America, the Middle East and Africa, fell by 12.4% to US$46.7 million in the financial year 2017. Higher revenue from ELPs and CMS was insufficient to offset lower revenue from TEL products. Other Regions accounted for 2.2% of Group revenue.

ELPs revenue in Other Regions increased by 15.7% to US$13.3 million, as sales to Latin America, the Middle East and Africa improved and the sales of LeapFrog products were consolidated.

TEL products revenue in Other Regions fell by 20.9% to US$32.6 million. The decline was attributable to lower orders from Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US$0.8 million in the financial year 2017, as compared to US$0.6 million in the previous financial year.

GLOBAL PRESENCE

Electronic Learning Products

Telecommunication Products

(Licensed Brand)

ELECTRONIC LEARNING PRODUCTS

Sold under the VTech and LeapFrog brands, the Group's educational toys enrich children's play experiences while encouraging them to pass essential developmental milestones.

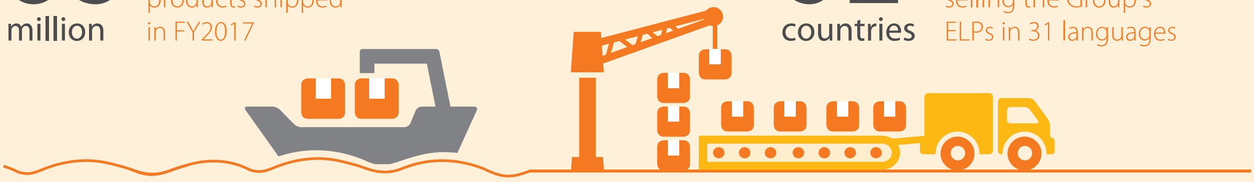
No. 1 supplier of electronic learning toys from infancy through toddler and preschool globally

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

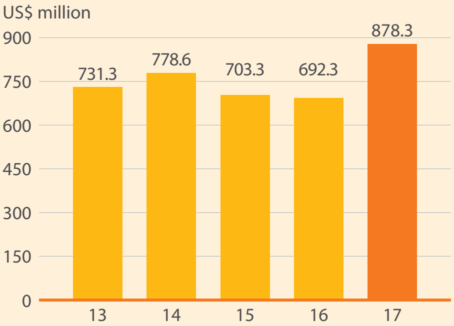
No. 1 infant and toddler toy manufacturer in France, the UK and Germany

63 million products shipped in FY2017

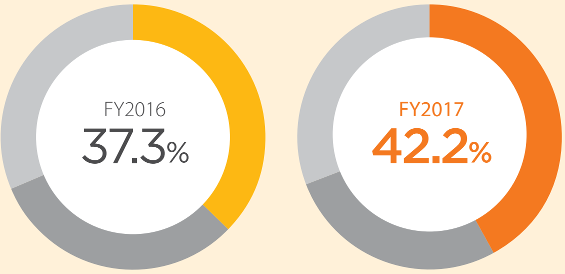
92 countries selling the Group's ELPs in 31 languages



ELPs Revenue in Last 5 Years



As % of Group Revenue



ELPs Revenue by Region

All figures are in US$ unless stated otherwise

North America	454.9 million	▲44.7% year-on-year
Europe	357.4 million	▲9.8% year-on-year
Asia Pacific	52.7 million	▲28.9% year-on-year
Other Regions	13.3 million	▲15.7% year-on-year

Standalone Products

that are age-appropriate and developmental stage-based.

Infant

0-12 months

Toddler

1-3 years

Preschool

3-6 years

Go! Go! Smart / Toot-Toot Family

Baby Amaze / Little Love

Platform Products

that consist of various devices for children, with books, cartridges, expansion packs and/or downloadable content for different learning levels.

Touch & Learn Activity Desk Deluxe
Interactive Learning System

KidiBuzz

LeapFrog Academy

which is a subscription-based, guided learning program designed by educational experts.

LeapFrog Academy

TELECOMMUNICATION PRODUCTS

The Group's diverse collection of telecommunication products elevates both home and business users' experience and sells under the leading brand names VTech, Snom and AT&T.

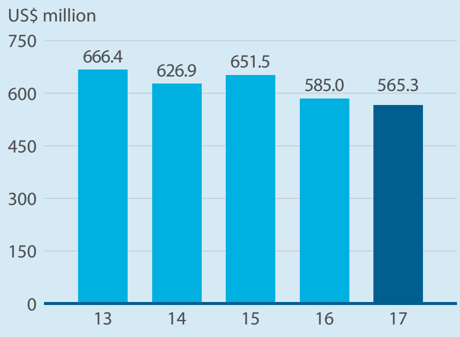
(Licensed Brand)

No. 1
cordless phones manufacturer globally

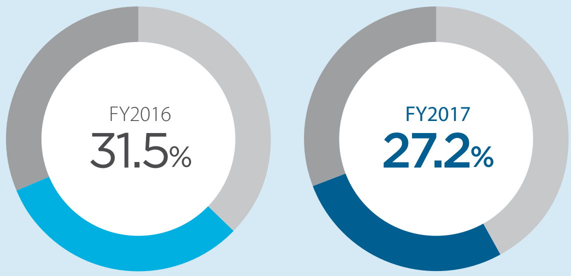
30.6 million
handsets shipped in FY2017

79 countries selling the Group's TEL products

TEL Products Revenue in Last 5 Years



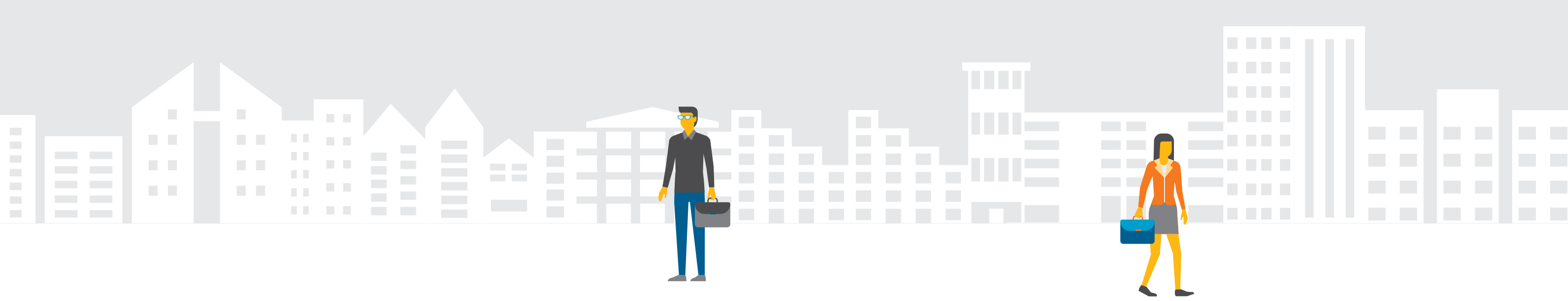
As % of Group Revenue



TEL Products Revenue by Region

All figures are in US$ unless stated otherwise

North America	365.7 million	▼1.5% year-on-year
Europe	128.9 million	▼5.5% year-on-year
Asia Pacific	38.1 million	▲5.8% year-on-year
Other Regions	32.6 million	▼20.9% year-on-year



Residential Phones

that are a perfect blend of design and functionality.

DS667V Connect to Cell Phone System with Cordless Headset

DS6722 Cordless Phone System

Commercial Phones

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

ErisStation

SIP Phone

Other Product Categories

- SMB Phone
- SIP-DECT Cordless Handset
- Hotel Phone
- Cordless Headset

Other Telecommunication Products

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

Wireless Monitoring System

Safe&Sound Baby Monitor

CAT-iq 2.0 Certified Handset

Other Product Categories

- Integrated Access Device
- Baby Soother
- CareLine

CONTRACT MANUFACTURING SERVICES

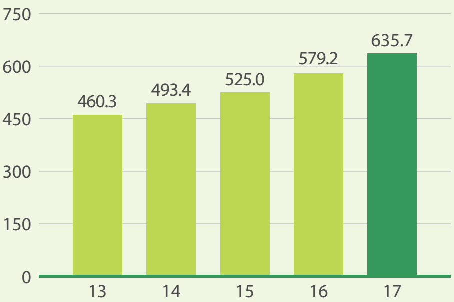
26th
among the world's top 50 EMS providers

15th
consecutive year of sales growth

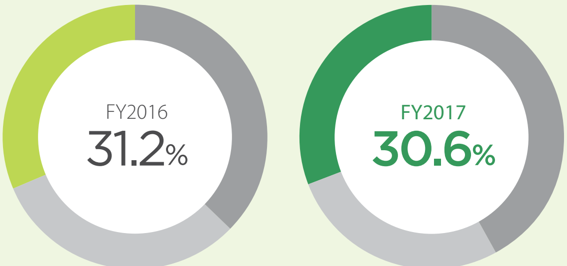
9.8%
sales growth in FY2017, outpacing the global EMS market

CMS Revenue in Last 5 Years

US$ million



As % of Group Revenue



CMS Revenue by Region

All figures are in US$ unless stated otherwise

North America	195.6 million	▲1.6% year-on-year
Europe	381.5 million	▲14.2% year-on-year
Asia Pacific	57.8 million	▲10.9% year-on-year
Other Regions	0.8 million	▲33.3% year-on-year

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

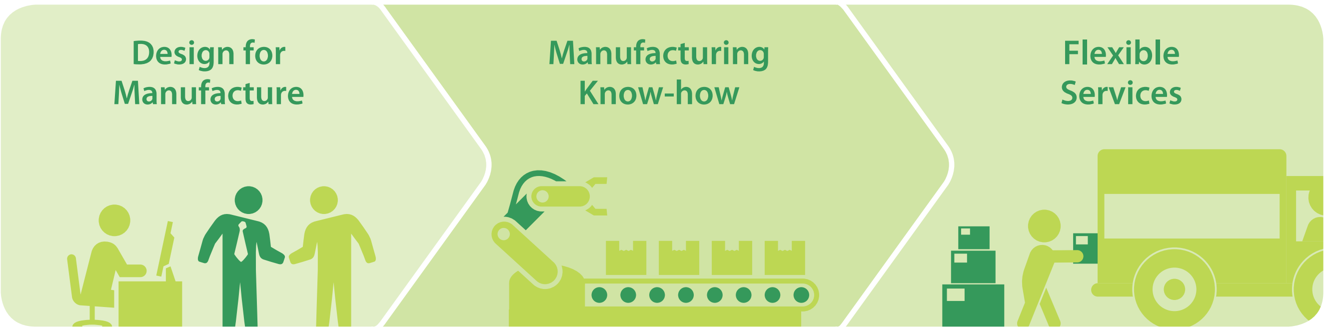
Professional Audio Equipment

Hearables

Medical & Health Products

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. The new manufacturing facilities specialise in producing high precision metal tooling and parts, extending CMS's supply chain vertically.



40th Anniversary Celebration

2016 marked the 40th anniversary of VTech. Internal events were held to celebrate this milestone.

Acquisition of Snom

In November 2016, VTech completed its acquisition of Snom, the pioneer and a leading brand of professional and enterprise VoIP telephones.

A Global Top 50 EMS Provider

26th

VTech Communications Limited was ranked 26th among the world's "Top 50 EMS Providers in 2016" in *Manufacturing Market Insider* magazine.

No. 1 in Infant Toys Category

In the calendar year 2016, VTech strengthened its position as the number one infant and toddler toy manufacturer in France, the UK and Germany[7]. In the US, the addition of LeapFrog consolidated the Group's position as the largest manufacturer of electronic learning toys from infancy through toddler and preschool[8].

Acquisition of LeapFrog

The acquisition of LeapFrog was completed on 4 April 2016, bringing two leaders in children's learning and entertainment together.

Sustainability Efforts

VTech Holdings Limited remained a constituent member of the Hang Seng Corporate Sustainability Benchmark Index and the FTSE4Good Global Index.

VTech was again selected as one of the top 100 most sustainable companies in Asia and ranked seventh in Hong Kong according to Channel NewsAsia, CSR Asia and Sustainalytics.

FTSE4Good

Hang Seng Corporate Sustainability Index Series Member 2016-2017

Channel NewsAsia SUSTAINABILITY RANKING

DECT Award

ErisStation VCS754A was named a winner in the "DECT Award 2016" in the Enterprise category by the DECT Forum.

Service Excellence

VTech Communications Limited received two "Best Supplier" awards from customers in the areas of industrial products and hearables.

Account Manager of the Year

A VTech employee was named "Account Manager of the Year" by Toys"R"Us in Canada for her excellent customer service.

Community Involvement

VTech employees participated in the Oxfam Trailwalker 2016, Sowers Action Challenging 12 Hours 2016, Standard Chartered Hong Kong Marathon 2017 and the 2017 AXA Hong Kong Streetathon during the financial year 2017.

In the Sowers Action event, VTech teams won first runner-up in the 26 km Corporate Team category and second runner-up in the 42 km Corporate Team category. The Group was presented with the Golden Corporate Participation award.

VTech was also first runner-up for the Top Participation Award (Organisation) in the Streetathon event and second runner-up in the Run for Paralympians.

In the financial year 2017, the Group contributed over 23,500 hours in volunteer activities. VTech's teams of volunteers actively participated in community services, including visiting elderly homes, arranging local cultural and ecology tours for children and joining the coastal cleanup programme.

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

[8] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales of VTech and LeapFrog products in the combined toy categories of early electronic learning, other infant toys, bath toys, electronic entertainment (excluding tablets) and preschool electronic learning for the 12 months ending December 2016*

Worldwide Recognition for the Go! Go! Smart/Toot-Toot Family

Go! Go! Smart/Toot-Toot family of products received over 30 top industry awards globally in the financial year 2017.

"Caring Company" Recognition

VTech was named a "Caring Company" by the Hong Kong Council of Social Service for the ninth 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

New Manufacturing Facilities

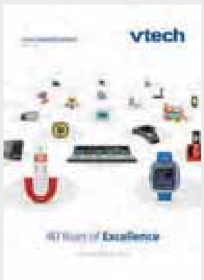
VTech CMS has established new manufacturing facilities in Liaobu, Dongguan for high precision metal tooling and parts, with the acquired fixed assets from Kenny Precision Products (Shenzhen) Company Limited. The new facilities commenced operations in the fourth quarter of the financial year 2017.

Award-winning Baby Monitors

VTech baby monitors received accolades in Australia and the UK. In Australia, the BM4500 Safe&Sound Pan & Tilt Video & Audio Baby Monitor won a "Silver Award" from both *Mother and Baby* magazine and *My Child* magazine. In the UK, the VM343 Pan & Tilt Video model received a "Gold Award" from *Practical Pre-school* magazine and also from the parenting website lovedbyparents.com.

Award-winning Annual Report

The VTech Annual Report 2016 received the "Bronze Award" in the category of Annual Reports – Print: Electronic Manufacturing in the Galaxy Awards 2016.



Other Awards

In the financial year 2017, VTech electronic learning products received over 120 accolades from respected toy and parenting industry experts, toy councils and retailers around the world.

"2016 Grand Prix du Jouet" Awards

DigiArt Creative Easel, Kidi Super Star and Little Love Cuddle and Care won "2016 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine in France.

Connected Home Solution Launched in Hong Kong

VTech introduced the 3-in-1 Connected Home Solution to the Hong Kong market in the second half of the financial year 2017. The system won the "Gold Prize" in the category of Telecommunications Products at the Electronic Industries Award 2016.

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 towards the societies and environment in which we operate. In our Sustainability Report 2017, we 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, and made reference to the Stock Exchange of Hong Kong Limited (the Stock Exchange) Environmental, Social and Governance (ESG) Reporting Guide (ESG Guide)[9] to define our report content.

The financial year 2017 (FY2017) marked the 40th anniversary of VTech, which was also a challenging year for the Company as we have completed three strategic acquisitions during the year. These included LeapFrog, a strong educational toy brand in the industry; Snom, the pioneer and a leading brand of professional and enterprise Voice over Internet Protocol telephones; and the acquisition of the fixed assets from Kenny Precision Products (Shenzhen) Company Limited for the production of high precision metal tooling and parts. The integration of these newly acquired businesses has also facilitated VTech to achieve its record revenue in FY2017.

With our continuous business development and global expansion, VTech recognises the responsibility to ensure that all our staff and business activities, including those employees and facilities joining VTech through the recent acquisitions, are following the same international statutory requirements regarding the environmental, social and ethical standards across the Company. As part of our consolidation programme after the acquisition, our sustainability sub-committees comprising key employees from the Company's different product lines and relevant departments, have also integrated and aligned our sustainability strategies and management systems to ensure that they could be carried out effectively and consistently throughout the Company and our global supply chain.

At VTech, we have also developed our sustainability management systems and measures around the needs of our stakeholders. We engage with our stakeholders by conducting materiality assessment surveys every year to identify and address their material issues and concerns on our sustainable development. Based on the results of the stakeholder surveys, we continue to focus our sustainability resources and efforts on the five key areas – product responsibility and innovation, environmental protection, workplace quality, sustainable operating practices and community investment.

VTech's Sustainability Report 2017 is our 4th annual Sustainability Report which has not only identified our short-term and long-term sustainability targets for the financial year 2018 to 2020 (FY2020), but also highlighted our performance progress and achievements for the year, with actions and programmes to be implemented towards our long-term goals in FY2020. With our dedicated sustainability resources and efforts, VTech Holdings Limited continues to be a constituent member of the Hang Seng Corporate Sustainability Benchmark Index and the FTSE4Good Global Index[10], and is once again selected as one of the top 100 most sustainable companies in Asia and ranked seventh in Hong Kong according to Channel NewsAsia, CSR Asia and Sustainalytics.

We have established a strong foundation for our sustainable growth. Moving forward, with our determination and commitment towards sustainability, we will continue to implement comprehensive programmes to achieve our 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 2017 are available on www.vtech.com/en/sustainability/.

[9] *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*
[10] *FTSE4Good Index is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards*

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.

As the global leader in electronic learning products and cordless telephones, VTech strives to develop and supply high quality and innovative products for the well-being of our customers and benefits of the society. Our smart home devices and baby monitor series 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 Enhanced Cordless Telecommunication cordless phones with Blue Angel eco-label, the level VI power adaptor with Energy Star eco-label, the solar charger and the 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. Except for our newly acquired manufacturing facilities from Kenny Precision Products (Shenzhen) Company Limited in Liao Bu, Dongguan, China with operations starting from January 2017, 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 and lean manufacturing programmes, 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.

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 Cleaner Production Excellent Partners" under the scheme jointly launched by the Hong Kong Productivity Council and the Guangdong Provincial Government in 2016. 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 addition, all our existing manufacturing sites of our TEL products, ELPs and CMS are certified with the ISO 14001 standard for environmental management, demonstrating that we are committed to continuous improvement on environmental protection.

We 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. Through our high performance production chain and green manufacturing programmes, we have achieved a reduction in electricity consumption per production output by 6.1% compared with the previous financial year.

High Performance Production Chain and Automation Process

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 our existing 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 FY2017, 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

40th Anniversary Celebration

Living Environment and Staff Activities

training programmes for our employees. With our effort in promoting continuous learning, the average training hours per employee increased by 42.3% compared with the previous financial year. We are also committed to respecting the labour and human rights of all our staff with clearly defined human resources management policies. We have procedures in place to ensure that our policies are properly implemented throughout the Company. Any issues or enquiries raised by our employees through different communication channels will be handled and investigated by the Company with care and in a confidential manner.

As for the working environment, we always put workplace safety as our number one priority. All the existing 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 manufacturing sites to conduct regular health and safety audit, and provide different training programmes for our people. With our continuous activities and efforts focusing on workplace safety, we are pleased to report that our health and safety training hours per employee increased by 175.9% compared with the last financial year, 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 at our manufacturing sites in FY2017.

VTech Book Corner

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. With our dedicated sustainability resources and efforts, we have achieved a reduction in CO_2 emission per production output by 7.9% compared with the previous financial year.

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 people and the society. In FY2017, we have recruited over 2,500 volunteers and contributed over 23,500 volunteering hours for the communities.

VTech has been awarded the "Caring Company" by The Hong Kong Council of Social Service for the ninth consecutive year in recognition of our continuous contribution to the Hong Kong community through various charitable activities. These included organising blood donation events at our office, visiting the elderly and donating food and moon cakes to the people in need. The voluntary team from our China manufacturing sites has also arranged regular school visits to the remote areas of China, and donated books and electronic learning toys to the children.

VTech also sponsors our staff to take part in different sport activities organised by the local charities. In FY2017, our employees participated in the Oxfam Trailwalker 2016, Sowers Action Challenging 12 Hours 2016, AXA Hong Kong Streetathon and Standard Chartered Hong Kong Marathon 2017. Our Sowers Action team won the 1st runner-up and 2nd runner-up in the category 26 km and 42 km Corporate Team respectively. VTech also won 2nd runner-up in the Run for Paralympians. We received the 2nd Top Participation Award in the AXA Hong Kong Streetathon in both 2016 and 2017 and were presented the Golden Corporate Participation award in Sowers Action Challenging 12 Hours 2016.

Visiting the Elderly

We also collaborate with local charities to support various charitable activities around the world. In FY2017, we have made charitable and other donations of over US$235,500.

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 minimising the environmental impacts from our operations, but also participate in different community events to develop and promote a healthy and green lifestyle for our people and the community. In FY2017, our volunteers teamed up with various organisations to join the coastal cleanup activities and local tree planting programmes. We have also organised green urban living workshops for our employees and their families.

Clockwise from top left: Coastal Cleanup Campaign; Plant Tour for Students from MIT Entrepreneurship and Maker Skills Integrator Program; Toys Donation for China Remote Area

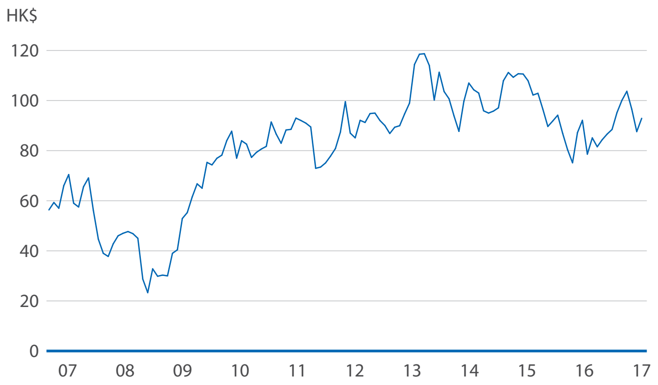
INVESTOR RELATIONS

VTech is committed to fostering long-term relationships with shareholders and investors. The Group communicates with both institutional and retail investors regularly to keep them abreast of VTech's business strategies, current operations and outlook.

Shareholder Value

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

VTech Share Price in Last 10 Years (1 April 2007 – 31 March 2017)



Source: Bloomberg Finance L.P.

Share Price Performance

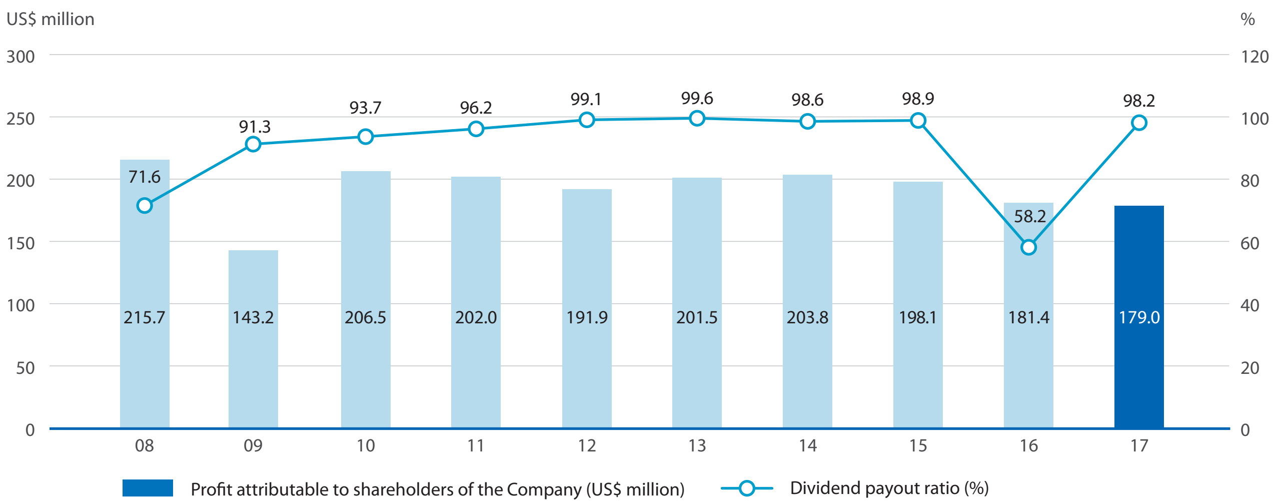
For the year ended 31 March	2017	2016
Highest closing price	**HK$104.90** (23 December 2016)	HK$110.80 (6 May 2015)
Lowest closing price	**HK$78.60** (9 May 2016)	HK$75.15 (20 January 2016)

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 2017 amounted to 98.2% of the profit attributable to shareholders of the Company, against 58.2% in the financial year 2016.

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 is also a constituent stock of the Hang Seng Corporate Sustainability Benchmark Index and FTSE4Good Global Index, testifying to its good environmental, social and corporate governance performance.

Corporate Governance

VTech believes that good corporate governance underpins its efforts to execute strategy, generate shareholder value and safeguard shareholders' long-term interests. The full corporate governance report is set out on pages 35 to 39 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 the investment community with ready, equal and timely access to balanced and understandable information about the Company.

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 mainland China
- An easily accessible Investors section on the corporate website, containing all key information
- A designated email for investors that makes communication easier

FY2017 Annual Results Analyst Briefing

Financial Calendar

Closure of Register of Members – Annual General Meeting	19 – 24 July 2017 (both days inclusive)
2017 Annual General Meeting	24 July 2017
Closure of Register of Members – Payment of Final Dividend	28 July 2017
Payment of Final Dividend	8 August 2017
2017/2018 Interim Results Announcement	November 2017
FY2018 Annual Results Announcement	May 2018

Listing and Stock Code

The Stock Exchange of Hong Kong Limited: 303

Share Information

Board lot: 100 shares
Issued shares as at 31 March 2017: 251,182,133 shares

Dividend

Dividend per ordinary share for the year ended 31 March 2017
– Interim dividend: US17.0 cents per share
– Final dividend: US53.0 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
Hong Kong
Tel: (852) 2862 8628
Fax: (852) 2865 0990
Email: hkinfo@computershare.com.hk

Investor Relations Contact and Website

Corporate Marketing Department
23rd Floor, Tai Ping Industrial Centre, Block 1
57 Ting Kok Road
Tai Po, New Territories
Hong Kong
Tel: (852) 2680 1000
Fax: (852) 2680 1788
Email: investor_relations@vtech.com
www.vtech.com/en/investors

Corporate Governance Practices

VTech Holdings Limited is incorporated in Bermuda and has its shares listed on the Stock Exchange. The corporate governance rules applicable to the Company are the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules. Throughout the year ended 31 March 2017, 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 half of the Board members are independent non-executive Directors. The Board believes the appointment of Dr. Allan WONG Chi Yun to the combined role of Chairman and Group Chief Executive Officer is beneficial to the Group as he has considerable industry experience.

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. Mr. Michael TIEN Puk Sun was unable to attend the 2016 annual general meeting of the Company held on 15 July 2016 ("2016 AGM") due to his other engagement. However, the Board believes that the presence of the other independent non-executive Directors at such general meeting has allowed the Board to develop a balanced understanding of the views of shareholders.

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 three 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 on a biannual basis. Their names and brief biographies are set out on page 40 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 three independent non-executive Directors, being half 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 Meeting (RCM), Risk Management and Sustainability Committee Meetings (RMSCM) and Annual General Meeting (AGM) during the financial year is set out below:

	Meetings attended/Eligible to attend					
Directors	**BM**	**ACM**	**NCM**	**RCM**	**RMSCM**	**AGM**
Executive Directors						
Allan WONG Chi Yun *(Chairman)*	4/4	–	1/1	–	2/2	1/1
PANG King Fai	4/4	–	–	–	2/2	1/1
Andy LEUNG Hon Kwong	4/4	–	–	–	2/2	1/1
Independent Non-executive Directors						
William FUNG Kwok Lun	4/4	2/2	1/1	1/1	–	1/1
Michael TIEN Puk Sun [Note 1]	2/2	1/1	–	–	–	0/1
Patrick WANG Shui Chung [Note 2]	3/4	1/1	1/1	1/1	–	1/1
WONG Kai Man	4/4	2/2	1/1	1/1	2/2	1/1

Notes:

(1) Mr. Michael TIEN Puk Sun retired as an independent non-executive Director, and ceased to be the chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee with effect from the conclusion of the 2016 AGM.

(2) Dr. Patrick WANG Shui Chung was appointed as the chairman of the Remuneration Committee and a member of the Audit committee with effect from the conclusion of the 2016 AGM.

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 Evaluation

The Board recognises the importance and benefits of conducting regular evaluation of its performance. A board evaluation for the financial year 2016/2017 was conducted in the form of a questionnaire to all Directors individually. The areas covered included composition, effectiveness, process of the Board and the committees.

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.

Mr. Michael TIEN Puk Sun retired as an independent non-executive Director with effect from the conclusion of the 2016 AGM. Upon the retirement of Mr. Michael TIEN Puk Sun, he also ceased to be the chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee, and Dr. Patrick WANG Shui Chung was appointed as the chairman of the Remuneration Committee and a member of the Audit Committee in place of Mr. Michael TIEN Puk Sun with effect from the conclusion of the 2016 AGM.

Audit Committee

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Mr. Michael TIEN Puk Sun (retired with effect from the conclusion of the 2016 AGM) and Dr. Patrick WANG Shui Chung (appointed with effect from the conclusion of the 2016 AGM) 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 Company Secretary and Group Chief Compliance Officer, the Group Chief Financial Officer and the external auditor. The work performed by the Audit Committee during the financial year included, but is not limited to, reviewing the following:

– audited Group's consolidated financial statements and reports for the year ended 31 March 2016;

– report from the external auditor for the year ended 31 March 2016;

– corporate governance report in the 2016 Annual Report;

– unaudited Group Interim Financial Report for the six months ended 30 September 2016 in the 2016/2017 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 2016 in the 2016/2017 Interim Report;

– corporate governance section in the 2016/2017 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;

– 2016 Sustainability Report;

– adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions; and

– the fee level and nature of non-audit work performed by external auditor.

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 2017 in conjunction with the Company's external auditor and senior management before recommending them to the Board for consideration and approval. The financial results of the Group for the year ended 31 March 2017 have been reviewed with no disagreement by the Audit Committee.

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

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

Based on the information received from the management, the external auditor and the Internal Audit Department, the Audit Committee is satisfied that the overall financial and operational controls, and the internal audit function 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 (retired with effect from the conclusion of the 2016 AGM), 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.

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 is 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.

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

Remuneration Committee

The Remuneration Committee is chaired by Dr. Patrick WANG Shui Chung (appointed with effect from the conclusion of the 2016 AGM), succeeding Mr. Michael TIEN Puk Sun (retired with effect from the conclusion of the 2016 AGM), 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 executive Directors and senior management are based on skills, knowledge and performance, together with reference to the profitability of the Company, and prevailing market conditions. In addition, the Company has established a share option scheme and a share purchase scheme to provide incentives and rewards to eligible participants for their continuous contribution to the Group.

The Remuneration Committee has held one meeting 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 and the share purchase scheme for executive Directors and senior management before recommending them to the Board for consideration and approval. It also benchmarked the remuneration packages to market surveys on a periodic basis.

During the year, the Remuneration Committee also reviewed and approved the shares to be awarded under the share purchase scheme in a number of instalments subject to the performance conditions.

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, an 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 on a regular basis, and reports to the Audit Committee on a biannual basis of any significant findings.

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 23 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.

The Data Security Governance Board was established in January 2016 with defined terms of reference reporting to the Risk Management and Sustainability Committee. The Data Security Governance Board is chaired by the Group Chief Executive Officer and comprises the Group President, the CMS Chief Executive Officer, the TEL President, the Group Chief Financial Officer, the Company Secretary and Group Chief Compliance Officer, and the Group Chief Information Officer. It is responsible for the decision-making, implementation, enforcement, oversight, compliance and periodic review of the Data Security Policy. During the financial year and up to the date of this Annual Report, the Risk Management and Sustainability Committee has reviewed the meeting minutes of the Data Security Governance Board.

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 2017 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 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	✔	✔
Patrick WANG Shui Chung	✔	✔
WONG Kai Man	✔	✔

Notes:

(1) Mr. Michael TIEN Puk Sun retired from the Board with effect from the conclusion of the 2016 AGM. Accordingly, his training record has not been included above.

(2) 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:

	2017 US$ million	2016 US$ million
Audit services	**1.0**	0.8
Audit related services	**0.1**	0.1
Tax services	**0.5**	0.5
Other advisory services	**0.1**	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 2017 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 pages 46 to 49 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.

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

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

Internal Control (Continued)

Internal Audit Department

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

Other Control and Management

Code of Conduct

The Company's policy on code of conduct is also an important part of the Group's internal control process. 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 Group Chief Compliance Officer, who will review the complaints and determine the appropriate mode of investigation and subsequent corrective action. Recommendations on improvements are communicated to the respective department's senior management for implementation. The Group Chief Compliance Officer reports the nature and status of complaints received on a quarterly basis, and the results of his review of the complaints to the Audit Committee on a biannual basis.

Risk Register

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

Model Code 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 2017.

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 resolutions at the annual general meeting and circulate to other shareholders written statement with respect to the matter to be dealt with at the annual general meeting by sending a written notice of their proposals to the Company Secretary at the Company's principal office address at 23rd Floor, Tai Ping Industrial Centre, Block 1, 57 Ting Kok Road, Tai Po, New Territories, Hong Kong.

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 2017.

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 66, 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 61, 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 58, 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 68, 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.

Patrick WANG Shui Chung, SBS, JP, aged 66, appointed as Independent Non-executive Director in 2001. Dr. WANG obtained his Bachelor of Science and Master of Science degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. Dr. WANG is currently the chairman and chief executive of Johnson Electric Holdings Limited and a non-executive director of Tristate Holdings Limited. He is also 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 66, 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, Shangri-la Asia Limited from 2006 to 2015 and Great Wall Pan Asia Holdings Limited (formerly known as Armada Holdings Limited and SCMP Group Limited) from 2007 to 25 November 2016. He was a court member from 2010 to 27 January 2017 and council member from 2011 to 27 January 2017 of The University of Hong Kong. He is currently a member of Financial Reporting Council and an independent non-executive director of 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 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 52, 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 57, 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 48, 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 57, 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 49, 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 56, 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 60, 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 61, 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 61, 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 2017.

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 2017 are set out in the consolidated statement of profit or loss on page 50.

An interim dividend of US17.0 cents (2016: US17.0 cents) per ordinary share was paid to shareholders on 19 December 2016. The Board has recommended the payment of a final dividend of US53.0 cents (2016: US25.0 cents) per ordinary share in respect of the year ended 31 March 2017, payable on 8 August 2017 to shareholders whose names appear on the register of members of the Company as at the close of business on 28 July 2017 subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "2017 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 26 July 2017.

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 39. The preceding sections form part of this Report. Further details relating to the Group's relationships with its key stakeholders and the Group's environmental policies and performance can be found in the Company's 2017 Sustainability Report to be published on the Company's website www.vtech.com.

Group Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 79.

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 21 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 51 and in note 22 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$235,500.

Directors

The Directors who held office during the financial year and up to 16 May 2017 (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
(retired with effect from the conclusion of the 2016 AGM)
Patrick WANG Shui Chung
WONG Kai Man

At the 2017 AGM, Dr. PANG King Fai and Dr. Patrick WANG Shui Chung shall retire as Directors by rotation in accordance with Bye-law 112 of the Company's Bye-laws. Dr. PANG King Fai and Dr. Patrick WANG Shui Chung being eligible, shall offer themselves for re-election as Directors at the 2017 AGM.

Brief biographical details of Directors and senior management are set out on pages 40 to 41 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 21 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 the previous share option scheme 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 21(b) 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 21(c) to the financial statements.

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

As at 31 March 2017, 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	–	–	60,000 *(Note 2)*	151,500	0.06%
Andy LEUNG Hon Kwong	128,000	–	–	100,000 *(Note 3)*	228,000	0.09%
William FUNG Kwok Lun	449,430	–	592,200 *(Note 4)*	–	1,041,630	0.41%
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) An aggregate of 60,000 shares were granted to Dr. PANG King Fai pursuant to the Share Purchase Scheme during the financial year. The Awarded Shares would be vested on 31 May 2017 subject to the achievement of certain performance conditions for the year ended 31 March 2017.

(3) An aggregate of 100,000 shares were granted to Mr. Andy LEUNG Hon Kwong pursuant to the Share Purchase Scheme during the financial year. The Awarded Shares would be vested on 31 May 2017 subject to the achievement of certain performance conditions for the year ended 31 March 2017.

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

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

(6) The approximate percentage of shareholding is calculated based on 251,182,133 shares of the Company in issue as at 31 March 2017.

Save as disclosed above, as at 31 March 2017, 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 2017, other than the interests of the Directors and chief executives of the Company as disclosed above, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which fell to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding
Long Position			
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%
The Capital Group Companies, Inc.	Interest of controlled corporation	38,427,256	15.30%
JPMorgan Chase & Co.	Beneficial owner *(Note 2)*	506,289	0.20%
	Investment manager *(Note 2)*	2,046,600	0.82%
	Custodian *(Note 2)*	16,393,124	6.52%
Templeton Asset Management Limited	Investment manager	12,593,300	5.01%
BlackRock, Inc.	Interest of controlled corporation *(Note 3)*	12,587,661	5.01%
Short Position			
JPMorgan Chase & Co.	Beneficial owner *(Note 2)*	220,700	0.08%
BlackRock, Inc.	Interest of controlled corporation *(Note 3)*	469,200	0.19%
Lending Pool			
JPMorgan Chase & Co.	Custodian *(Note 2)*	16,393,124	6.52%

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) The capacities of JPMorgan Chase & Co. in holding the 18,946,013 shares (long position) and 220,700 shares (short position) were as to (i) 506,289 shares (long position) and 220,700 shares (short position) as beneficial owner, (ii) 2,046,600 shares (long position) as investment manager, and 16,393,124 shares (long position) in the lending pool as custodian. The long position includes derivative interests of 59,700 shares derived from unlisted and cash settled derivatives. The short position includes 105,500 shares derived from unlisted and cash settled derivatives. The interest of JPMorgan Chase & Co. was attributable on account through a number of entities directly or indirectly controlled by JPMorgan Chase & Co.

(3) The long position includes derivative interests of 79,500 shares derived from unlisted and cash settled derivatives. The short position includes 49,100 shares derived from unlisted and cash settled derivatives.

(4) The approximate percentage of shareholding is calculated based on 251,182,133 shares of the Company in issue as at 31 March 2017.

Save as disclosed above, as at 31 March 2017, the Company had not been notified by any person (other than the Directors and chief executives of the Company) who had interests or short positions in the shares and underlying shares of the Company which fell to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Public Float

Based on the information publicly available and within the knowledge of the Directors, the Company has maintained at least 25% of the total issued share capital of the Company to be held by the public at all times during the year ended 31 March 2017 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 2017.

Securities Purchase Arrangements

At the 2016 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 464,400 Company's shares at a consideration of approximately US$5.3 million.

Major Customers and Suppliers

For the year ended 31 March 2017, 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 12.5% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 34.8% of the Group's revenue during the financial year.

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

Dr. William FUNG Kwok Lun has an interest in 22,000 shares (representing less than 0.001% of the total issued shares) in the Group's largest customer.

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

Pre-emptive Rights

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

Auditor

The Group's consolidated financial statements have been audited by KPMG, who shall retire and, being eligible, offer itself for reappointment at the 2017 AGM.

On behalf of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 16 May 2017

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

Opinion

We have audited the consolidated financial statements of VTech Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 50 to 78, which comprise the consolidated statement of financial position as at 31 March 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Assessing the valuation of stocks

Refer to note 14 to the consolidated financial statements and the accounting policies on page 55.

The Key Audit Matter

Stocks held at the year end comprise a wide range of products including electronic learning products and telecommunication products.

Sales of stocks in the electronic products industry can be volatile due to keen competition in the market and consumer demand frequently changing.

The Group typically sells or disposes of slow moving stocks at a markdown from the original price to maintain the strength of the brand and make room for new products on the shelves of retailers. Accordingly, the actual future selling prices of some items of stocks may fall below their cost.

Management assesses the net realisable value of slow moving and excess stocks with reference to the stock ageing report, anticipated future selling prices and sales forecasts. Stocks are written down to their net realisable value where this falls below their cost.

We identified the valuation of stocks as a key audit matter because determining appropriate stock write-downs and provisions involves predicting the excess quantities of stocks which will remain unused or unsold after the end of the reporting period and the markdowns necessary to sell such slow moving stocks, which can be inherently uncertain and requires the exercise of significant management judgement.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of stocks included the following:

- evaluating the Group's stock write-down and provision policy with reference to the requirements of the prevailing accounting standards;
- assessing whether the stock write-downs and provisions made at the reporting date were consistent with the Group's stock write-down and provision policy by recalculating the stock write-downs and provisions based on the relevant parameters in the policy;
- assessing the historical accuracy of management's judgements in making write-downs and provisions for stocks by examining the utilisation or release of provisions recorded as at 31 March 2016 and new provisions made in the current year in respect of stocks on hand as at 31 March 2016;
- assessing, on a sample basis, whether items in the stock ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation, which included purchase invoices and goods received notes;
- enquiring of the director of each division and senior members of the sales team about any expected changes in plans for markdowns or disposals of slow moving stocks and comparing their representations with actual production and sales transactions subsequent to the reporting date; and
- evaluating, on a sample basis, whether stocks were stated at the lower of cost and net realisable value at the reporting date by comparing the sales prices of stocks subsequent to the reporting date with their carrying values as at 31 March 2017.

Assessing the fair value of acquired intangible assets

Refer to note 9 to the consolidated financial statements and the accounting policies on page 54.

The Key Audit Matter

The Group acquired LeapFrog Enterprises, Inc. and Snom Technology GmbH (formerly known as Snom Technology AG) during the current financial year and recognised identifiable intangible assets of the acquirees on the respective dates of acquisition at their fair values of US$21.1 million in aggregate.

The intangible assets, which include a brand name and technology, which comprises proprietary computer software, were valued by external valuation experts engaged by the Group using discounted cash flow forecasts.

The preparation of discounted cash flow forecasts involves making a number of key assumptions and estimates relating to each class of intangible asset, including growth rates, discount rates, royalty rates and product life cycles. The identification and valuation of acquired intangible assets requires significant judgement and is sensitive to the assumptions adopted.

We identified assessing the fair value of acquired intangible assets as a key audit matter because the valuations of intangible assets of each acquiree on the dates of acquisition are complex and requires the exercise of significant management judgement.

How the matter was addressed in our audit

Our audit procedures to assess the fair value of acquired intangible assets included the following:

- assessing the experience, competence and objectivity of the external valuation experts engaged by the Group to value the acquired intangible assets;
- involving our internal valuation specialists to assist us in assessing the valuation model and significant estimates and assumptions applied in the valuation of acquired intangible assets on the respective dates of acquisition, including discount rates and royalty rates, with reference to available market information;
- evaluating the assumptions adopted in the preparation of cash flow forecasts for the purpose of the intangible asset valuations, including future growth rates for income and expenses and product life cycles, with reference to our understanding of the business, historical trends, available industry information and available market data; and
- comparing the budgeted results prepared at the time of acquisition with the actual post-acquisition performance of the businesses acquired to assess how accurate the cash flow forecasts were at the time of acquisition and making enquiries of management as to the reasons for any significant variations identified.

Assessing potential impairment of goodwill

Refer to note 12 to the consolidated financial statements and the accounting policies on pages 54 to 55.

The Key Audit Matter

Management performed impairment assessments of the goodwill which arose from the acquisitions during the year of LeapFrog Enterprises, Inc. and Snom Technology GmbH at the reporting date.

In performing such impairment assessments, management compared the carrying value of each of the separately identifiable cash generating units ("CGUs") to which goodwill had been allocated with their respective value in use based on discounted cash flow forecasts to determine if any impairment loss should be recognised.

The preparation of discounted cash flow forecasts for the purpose of assessing potential impairment of goodwill involves estimating future cash flows, growth rates and discount rates which can be inherently uncertain.

We identified the assessment of potential impairment of goodwill as a key audit matter because the year end goodwill impairment assessments performed by management contain certain judgemental assumptions which could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill included the following:

- assessing the management's identification of CGUs, the allocation of assets to each CGU and the methodology adopted by management in its impairment assessments of goodwill with reference to the requirements of the prevailing accounting standards;
- evaluating the assumptions adopted in the preparation of the cash flow forecasts for the purpose of the impairment assessments of goodwill, including projected future growth rates for income and expenses, with reference to our understanding of the business, historical trends and available industry information and available market data;
- engaging our internal valuation specialists to assist us in assessing whether the discount rates applied in the discounted cash flow forecasts prepared for the purpose of assessing potential impairment of goodwill were within a reasonable range by comparison with data for companies operating in the same industries;
- comparing the budgeted results prepared at the time of acquisition with the actual post-acquisition performance of the businesses acquired to assess how accurate the cash flow forecasts were at the time of acquisition and making enquiries of management as to the reasons for any significant variations identified; and
- assessing the impact of changes in the key assumptions, including projected profitability and the discount rates, adopted in the discounted cash flow forecasts on the conclusions reached in the impairment assessments and assessing whether there were any indicators of management bias in the selection of these assumptions.

Assessing the recoverability of trade debtors

Refer to note 15 to the consolidated financial statements and the accounting policies on pages 54 to 55.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 March 2017, the Group's gross trade debtors totalled US$283.5 million, against which allowances for doubtful debts of US$8.1 million were recorded. The Group's allowances for doubtful debts are based on management's estimate of the expected credit losses to be incurred, which is estimated by taking into account the credit history of the Group's customers and current market and customer-specific conditions, all of which involve a significant degree of management judgement. The Group's allowances for doubtful debts include a specific element based on individual debtors and a collective element based on historical experience adjusted for certain current factors. We identified assessing the recoverability of trade debtors as a key audit matter because it involves significant management judgement in determining the recoverable amount of trade debtors and because estimating the recoverable amount involves inherent uncertainty and requires the exercise of significant management judgement.	Our audit procedures to assess the recoverability of trade debtors included the following: • obtaining an understanding of and assessing the design and implementation of management's key internal controls relating to credit control, debt collection and making allowances for doubtful debts; • assessing, on a sample basis, whether items in the trade debtors' ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation, which included sales invoices and goods delivery notes; • assessing the assumptions and estimates made by the management for the allowances for doubtful debts with reference to our understanding of the debtors' financial condition, the industry in which the debtors are operating, the ageing of overdue balances and historical and post year-end cash receipts from the debtors and by performing a retrospective review of the historical accuracy of these estimates; • comparing, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade debtor balances as at 31 March 2017 with bank statements and relevant remittance documentation; and • assessing the historical accuracy of management's process for making allowances for doubtful debts by examining the utilisation or release of allowances recorded as at 31 March 2016 and new allowances made in the current year in respect of trade debtors as at 31 March 2016.

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

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

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

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 May 2017

Consolidated Statement of Profit or Loss

For the year ended 31 March 2017

	Note	2017 US$ million	2016 US$ million
Revenue	1	**2,079.3**	1,856.5
Cost of sales		**(1,389.9)**	(1,273.2)
Gross profit		**689.4**	583.3
Selling and distribution costs		**(319.0)**	(254.3)
Administrative and other operating expenses		**(93.2)**	(70.4)
Research and development expenses		**(77.2)**	(56.3)
Operating profit	1&2	**200.0**	202.3
Net finance income		**0.1**	0.8
Profit before taxation		**200.1**	203.1
Taxation	4	**(21.1)**	(21.7)
Profit for the year and attributable to shareholders of the Company		**179.0**	181.4
Earnings per share (US cents)	6		
– Basic		**71.3**	72.2
– Diluted		**71.3**	72.2

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2017

	2017 US$ million	2016 US$ million
Profit for the year	**179.0**	181.4
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	**2.7**	(1.5)
	2.7	(1.5)
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on hedging, net of deferred tax	**5.2**	4.8
Realisation of hedging reserve	**(4.8)**	(5.2)
Exchange translation differences	**(17.2)**	0.2
	(16.8)	(0.2)
Other comprehensive income for the year	**(14.1)**	(1.7)
Total comprehensive income for the year	**164.9**	179.7

Consolidated Statement of Financial Position

As at 31 March 2017

	Note	2017 US$ million	2016 US$ million
Non-current assets			
Tangible assets	7	**72.1**	68.4
Leasehold land payments	8	**4.5**	4.8
Intangible assets	9	**20.5**	–
Deposits for acquisition of tangible assets	10	**–**	3.3
Investments	11	**3.1**	3.1
Goodwill	12	**31.1**	–
Deferred tax assets	13(b)	**7.0**	4.0
		138.3	83.6
Current assets			
Stocks	14	**324.9**	285.4
Debtors, deposits and prepayments	15	**325.6**	266.2
Taxation recoverable	13(a)	**2.4**	2.3
Deposits and cash	16	**268.8**	273.0
		921.7	826.9
Current liabilities			
Creditors and accruals	17	**(422.2)**	(345.3)
Provisions for defective goods returns and other liabilities	18	**(34.9)**	(31.5)
Taxation payable	13(a)	**(10.8)**	(3.6)
Secured bank loans	19	**(0.7)**	–
		(468.6)	(380.4)
Net current assets		**453.1**	446.5
Total assets less current liabilities		**591.4**	530.1
Non-current liabilities			
Secured bank loans	19	**(1.0)**	–
Net obligations on defined benefit scheme	20	**(2.5)**	(5.1)
Deferred tax liabilities	13(b)	**(3.2)**	–
		(6.7)	(5.1)
Net assets		**584.7**	525.0
Capital and reserves			
Share capital	21(a)	**12.5**	12.5
Reserves		**572.2**	512.5
Total equity		**584.7**	525.0

Approved and authorised for issue by the Board of Directors on 16 May 2017.

Allan WONG Chi Yun
Director

PANG King Fai
Director

The notes and principal accounting policies on pages 52 to 78 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 2017

		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		–	–	–	–	–	(153.2)	(153.2)
Interim dividend in respect of the current year	5	–	–	–	–	–	(42.7)	(42.7)
Shares purchased for Share Purchase Scheme	21(c)&22(b)	–	–	(1.0)	–	–	–	(1.0)
Vesting of shares of Share Purchase Scheme	21(c)&22(b)	–	–	1.4	–	–	–	1.4
At 31 March 2016		12.5	148.8	(0.5)	(16.6)	4.8	376.0	525.0

		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 2016		**12.5**	**148.8**	**(0.5)**	**(16.6)**	**4.8**	**376.0**	**525.0**
Changes in equity for the year ended 31 March 2017								
Comprehensive income								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**179.0**	**179.0**
Other comprehensive income								
Fair value gains on hedging, net of deferred tax		**–**	**–**	**–**	**–**	**5.2**	**–**	**5.2**
Realisation of hedging reserve		**–**	**–**	**–**	**–**	**(4.8)**	**–**	**(4.8)**
Exchange translation differences		**–**	**–**	**–**	**(17.2)**	**–**	**–**	**(17.2)**
Effect of remeasurement of net liability of defined benefit scheme, net of deferred tax		**–**	**–**	**–**	**–**	**–**	**2.7**	**2.7**
Other comprehensive income for the year		**–**	**–**	**–**	**(17.2)**	**0.4**	**2.7**	**(14.1)**
Total comprehensive income for the year		**–**	**–**	**–**	**(17.2)**	**0.4**	**181.7**	**164.9**
Final dividend in respect of the previous year	5	**–**	**–**	**–**	**–**	**–**	**(62.8)**	**(62.8)**
Interim dividend in respect of the current year	5	**–**	**–**	**–**	**–**	**–**	**(42.7)**	**(42.7)**
Shares purchased for Share Purchase Scheme	21(c)&22(b)	**–**	**–**	**(5.3)**	**–**	**–**	**–**	**(5.3)**
Vesting of shares of Share Purchase Scheme	21(c)&22(b)	**–**	**–**	**5.6**	**–**	**–**	**–**	**5.6**
At 31 March 2017		**12.5**	**148.8**	**(0.2)**	**(33.8)**	**5.2**	**452.2**	**584.7**

The notes and principal accounting policies on pages 52 to 78 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	Note	2017 US$ million	2016 US$ million
Operating activities			
Operating profit		**200.0**	202.3
Depreciation of tangible assets	2	**33.9**	34.9
Amortisation of leasehold land payments	2	**0.3**	0.2
Amortisation of intangible assets	2	**0.6**	–
Gain on disposal of tangible assets	2	**(0.7)**	–
Share-based payment expenses		**5.6**	–
(Increase)/Decrease in stocks		**(14.5)**	4.8
Increase in debtors, deposits and prepayments		**(19.4)**	(7.1)
Increase in creditors and accruals		**2.9**	3.1
(Decrease)/Increase in provisions for defective goods returns and other liabilities		**(7.1)**	4.2
Increase in net obligations on defined benefit scheme		**0.4**	0.4
Cash generated from operations		**202.0**	242.8
Interest received		**0.1**	0.8
Taxes paid		**(16.8)**	(26.9)
Net cash generated from operating activities		**185.3**	216.7
Investing activities			
Purchase of tangible assets		**(35.7)**	(38.3)
Proceeds from disposal of tangible assets		**1.5**	0.3
Proceeds received from bank deposits with original maturity greater than three months		**–**	70.0
Deposit paid for acquisition of tangible assets		**–**	(3.3)
Purchase of investments		**–**	(3.0)
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)	25	**(28.2)**	–
Net cash (used in)/generated from investing activities		**(62.4)**	25.7
Financing activities			
Repayment of bank loans arising from acquisition of Snom		**(2.0)**	–
Payment for shares acquired for Share Purchase Scheme	21(c)	**(5.3)**	(1.0)
Dividends paid	5	**(105.5)**	(195.9)
Net cash used in financing activities		**(112.8)**	(196.9)
Effect of exchange rate changes		**(14.3)**	3.3
(Decrease)/Increase in cash and cash equivalents		**(4.2)**	48.8
Cash and cash equivalents at 1 April		**273.0**	224.2
Cash and cash equivalents at 31 March		**268.8**	273.0

The notes and principal accounting policies on pages 52 to 78 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:

- *Annual improvements to IFRSs 2012-2014 cycle*
- Amendments to IAS 16, *Property, plant and equipment,* and IAS 38, *Intangible assets, Clarification of acceptable methods of depreciation and amortisation*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (note 29).

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 and investments at their fair value as explained in the accounting policies set out below.

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

Principal Accounting Policies (Continued)

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 (N)). 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 (N)). 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.

H Goodwill

Goodwill represents the excess of:

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

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

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

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

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

Principal Accounting Policies (Continued)

I Business Combination

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

Acquisition-related costs are expensed as incurred.

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

J Tangible Assets and Depreciation

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

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.

K Construction in Progress

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

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

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

L Intangible Assets

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

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

Brand	30 years
Technology	5 years

Both the period and method of amortisation are reviewed annually.

M 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 (N)). 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.

N 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.

N Impairment of Assets (Continued)

(ii) Impairment of other assets

The carrying amounts of the Group's assets including tangible assets, construction in progress, intangible assets 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. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

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

– Reversal of impairment losses

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

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

(iii) 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.

O 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.

P Stocks

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

Q 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 (N)).

R 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.

Principal Accounting Policies (Continued)

S 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.

T 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.

U Income Tax

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences 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).

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

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

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

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

V Employee Benefits

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

(i) Defined contribution schemes

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

V Employee Benefits (Continued)

(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 options and Awarded Shares are spread over the vesting period, taking into account the probability that the options and Awarded Shares will vest.

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

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

W 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.

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

X Derivative Financial Instruments

Derivative financial instruments are recognised 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.

Principal Accounting Policies (Continued)

X Derivative Financial Instruments (Continued)

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.

Y 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.

Z Dividends

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

AA Segment Reporting

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

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

AB Related Parties

(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, manufacture 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 non-current assets and current assets with the exception of deferred tax assets, taxation recoverable and other corporate assets including intangible assets, goodwill and investments.

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

Year ended 31 March 2017	**North America US$ million**	**Europe US$ million**	**Asia Pacific US$ million**	**Others US$ million**	**Total US$ million**
Reportable segment revenue	**1,016.2**	**867.8**	**148.6**	**46.7**	**2,079.3**
Reportable segment profit	**91.4**	**82.3**	**20.0**	**6.3**	**200.0**
Depreciation and amortisation	**1.4**	**1.2**	**32.2**	**–**	**34.8**
Reportable segment assets	**175.2**	**119.2**	**701.5**	**–**	**995.9**
Reportable segment liabilities	**(71.6)**	**(32.9)**	**(356.7)**	**(0.1)**	**(461.3)**

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)

(c) Reconciliations of reportable segment assets and liabilities

	Note	**2017 US$ million**	2016 US$ million
Assets			
Reportable segment assets		**995.9**	901.1
Intangible assets	9	**20.5**	–
Investments	11	**3.1**	3.1
Goodwill	12	**31.1**	–
Taxation recoverable	13(a)	**2.4**	2.3
Deferred tax assets	13(b)	**7.0**	4.0
Consolidated total assets		**1,060.0**	910.5
Liabilities			
Reportable segment liabilities		**(461.3)**	(381.9)
Taxation payable	13(a)	**(10.8)**	(3.6)
Deferred tax liabilities	13(b)	**(3.2)**	–
Consolidated total liabilities		**(475.3)**	(385.5)

For the year ended 31 March 2017, approximately 12% (2016: 12%) 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 23(a).

2 Operating Profit

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

	Note	2017 US$ million	2016 US$ million
Staff related costs			
– salaries and wages		**314.7**	288.5
– pension costs: defined contribution schemes	20(a)	**18.9**	18.3
– pension costs: defined benefit scheme	20(b)	**1.9**	1.8
– severance payments		**10.0**	3.0
– share-based payment expenses	21(c)	**5.6**	1.4
		351.1	313.0
Cost of inventories	14(b)	**1,389.9**	1,273.2
Depreciation of tangible assets	7	**33.9**	34.9
Amortisation of leasehold land payments	8	**0.3**	0.2
Amortisation of intangible assets	9	**0.6**	–
Gain on disposal of tangible assets		**(0.7)**	–
Auditors' remuneration			
– audit services		**1.0**	0.8
– audit related services		**0.1**	0.1
– tax services		**0.5**	0.5
– other advisory services		**0.1**	0.9

	Note	2017 US$ million	2016 US$ million
Operating leases charges: minimum lease payments			
– land and buildings		**23.2**	16.7
– others		**3.0**	2.6
Impairment loss of trade debtors	15(b)	**2.5**	0.6
Impairment loss of trade debtors written back	15(b)	**–**	(0.3)
Royalties		**12.0**	10.0
Provision for defective goods returns	18	**26.8**	21.3
Net foreign exchange loss		**0.4**	0.3
Net (gain)/loss on forward foreign exchange contracts			
– Net gain on cash flow hedging instruments reclassified from equity		**(4.8)**	(5.2)
– Net loss on forward foreign exchange contracts		**–**	0.2

3 Directors' Emoluments and Individuals with Highest Emoluments

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

Directors' emoluments

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	Share-based payment US$ million	2017 Total US$ million
Executive Directors *(i)*						
Allan WONG Chi Yun *(ii)*	**–**	**1.0**	**1.8**	**0.1**	**–**	**2.9**
PANG King Fai *(iii)*	**–**	**0.5**	**0.5**	**–**	**0.8**	**1.8**
Andy LEUNG Hon Kwong *(iii)*	**–**	**0.6**	**1.2**	**–**	**1.3**	**3.1**
Independent Non-executive Directors						
William FUNG Kwok Lun *(iv)*	**–**	**–**	**–**	**–**	**–**	**–**
Michael TIEN Puk Sun *(v)* *(retired on 15 July 2016)*	**–**	**–**	**–**	**–**	**–**	**–**
Patrick WANG Shui Chung *(vi)*	**–**	**–**	**–**	**–**	**–**	**–**
WONG Kai Man *(vii)*	**–**	**–**	**–**	**–**	**–**	**–**
	–	**2.1**	**3.5**	**0.1**	**2.1**	**7.8**

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

Directors' emoluments (Continued)

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	Share-based payment US$ million	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 *(iv)*	–	–	–	–	–	–
Michael TIEN Puk Sun *(v)*	–	–	–	–	–	–
Patrick WANG Shui Chung *(vi)*	–	–	–	–	–	–
WONG Kai Man *(vii)*	–	–	–	–	–	–
	–	2.0	4.3	0.1	–	6.4

Notes:

(i) The directors' fee paid to each executive Director, except for Dr. Allan WONG Chi Yun, was US$30,000 (2016: US$30,000) per annum. The directors' fee paid to Dr. Allan WONG Chi Yun was US$32,000 (2016: US$32,000) per annum.

(ii) Included in the emoluments paid to Dr. Allan WONG Chi Yun, a housing benefit of HK$4,200,000 for the year ended 31 March 2017 (2016: HK$4,200,000), 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) Included in the emoluments paid to Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong, an aggregate of 60,000 shares and 100,000 shares were granted to Dr. PANG King Fai and Mr. Andy LEUNG Hon Kwong respectively pursuant to the Share Purchase Scheme during the year.

(iv) The emoluments paid to Dr. William FUNG Kwok Lun was US$38,000 (2016: US$38,000) per annum.

(v) The emoluments paid to Mr. Michael TIEN Puk Sun was US$11,035 for the period from 1 April 2016 to his date of retirement on 15 July 2016 (2016: US$38,000).

(vi) The emoluments paid to Dr. Patrick WANG Shui Chung was US$36,274 (2016: US$32,000) per annum.

(vii) The emoluments paid to Mr. WONG Kai Man was US$39,000 (2016: US$39,000) per annum.

Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2016: three) are Directors whose emoluments are set out above. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

	2017 US$ million	2016 US$ million
Salaries, allowances and benefits in kind	**0.9**	0.9
Discretionary bonuses	**1.6**	2.0
Contributions to retirement benefit schemes	**–**	0.1
Share-based payment	**1.8**	–
	4.3	3.0

The emoluments fell within the following bands:

	2017 Individuals	2016 Individuals
US$		
961,001 – 1,025,000	**–**	1
1,153,001 – 1,217,000	**1**	–
1,921,001 – 1,985,000	**–**	1
3,073,001 – 3,137,000	**1**	–
	2	2

During the years ended 31 March 2016 and 31 March 2017, 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:

	2017 Individuals	2016 Individuals
US$		
321,001 – 385,000	**1**	3
385,001 – 449,000	**1**	1
449,001 – 513,000	**1**	–
513,001 – 577,000	**1**	1
577,001 – 641,000	**2**	1
705,001 – 769,000	**–**	1
769,001 – 833,000	**1**	–
	7	7

4 Taxation

	Note	**2017 US$ million**	2016 US$ million
Current tax			
– Hong Kong		**17.9**	15.3
– Overseas		**6.4**	7.0
Over-provision in respect of prior years			
– Hong Kong		**(0.1)**	(0.5)
– Overseas		**–**	(0.7)
Deferred tax			
– Origination and reversal of temporary differences	13(b)	**(3.1)**	0.6
		21.1	21.7
Current tax		**24.2**	21.1
Deferred tax		**(3.1)**	0.6
		21.1	21.7

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2016: 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.

4 Taxation (Continued)

(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 2017 was 10.5% (2016: 10.7%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2017 %	2016 %
Statutory domestic income tax rate	**16.5**	16.5
Difference in overseas income tax rates	**1.3**	1.2
Tax effect of non-temporary differences	**(7.4)**	(6.1)
Others	**0.1**	(0.9)
Effective income tax rate	**10.5**	10.7

5 Dividends

	Note	**2017 US$ million**	2016 US$ million
Interim dividend of US17.0 cents (2016: US17.0 cents) per share declared and paid	22(b)	**42.7**	42.7
Final dividend of US53.0 cents (2016: US25.0 cents) per share proposed after the end of the reporting period	22(b)	**133.1**	62.8

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

At a meeting held on 17 May 2016, the Directors proposed a final dividend of US25.0 cents per ordinary share for the year ended 31 March 2016, which was estimated to be US$62.8 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2016. The final dividend was approved by shareholders at the annual general meeting on 15 July 2016. The final dividend paid in respect of the year ended 31 March 2016 totaled US$62.8 million.

6 Earnings Per Share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of the Company of US$179.0 million (2016: US$181.4 million).

The calculation of basic earnings per share is based on the weighted average of 251.1 million (2016: 251.1 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

No material adjustment has been made to the basic earnings per share presented for the years ended 31 March 2016 and 31 March 2017 as the Company did not have any significant dilutive potential Awarded 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 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 and 1 April 2016	52.3	20.1	297.9	138.8	6.9	516.0
Additions	–	2.6	26.1	10.3	–	39.0
Additions upon acquisition of subsidiaries *(Note 25)*	–	–	0.7	1.5	–	2.2
Disposals	(0.3)	(0.6)	(19.6)	(5.5)	–	(26.0)
Effect of changes in exchange rates	(1.4)	(1.1)	(2.4)	(4.7)	–	(9.6)
At 31 March 2017	**50.6**	**21.0**	**302.7**	**140.4**	**6.9**	**521.6**
Accumulated depreciation and impairment						
At 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 and 1 April 2016	37.8	11.0	269.9	122.0	6.9	447.6
Charge for the year	1.5	1.2	22.0	9.2	–	33.9
Written back on disposals	(0.3)	(0.4)	(19.4)	(5.1)	–	(25.2)
Effect of changes in exchange rates	(0.6)	(0.4)	(2.2)	(3.6)	–	(6.8)
At 31 March 2017	**38.4**	**11.4**	**270.3**	**122.5**	**6.9**	**449.5**
Net book value at 31 March 2017	**12.2**	**9.6**	**32.4**	**17.9**	**–**	**72.1**
Net book value at 31 March 2016	14.5	9.1	28.0	16.8	–	68.4

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 2015	10.3	42.4	52.7
Effect of changes in exchange rates	0.3	(0.7)	(0.4)
At 31 March 2016 and 1 April 2016	10.6	41.7	52.3
Disposals	–	(0.3)	(0.3)
Effect of changes in exchange rates	(0.5)	(0.9)	(1.4)
At 31 March 2017	**10.1**	**40.5**	**50.6**
Accumulated depreciation			
At 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 and 1 April 2016	6.3	31.5	37.8
Charge for the year	0.3	1.2	1.5
Written back on disposals	–	(0.3)	(0.3)
Effect of changes in exchange rates	(0.3)	(0.3)	(0.6)
At 31 March 2017	**6.3**	**32.1**	**38.4**
Net book value at 31 March 2017	**3.8**	**8.4**	**12.2**
Net book value at 31 March 2016	4.3	10.2	14.5
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)	1.4	–	1.4
Overseas			
Freehold land and buildings	2.4	–	2.4
Short-term leasehold buildings	–	8.4	8.4
	2.4	8.4	10.8

8 Leasehold Land Payments

	Note	2017 US$ million	2016 US$ million
Net book value at 1 April		**4.8**	5.0
Amortisation	2	**(0.3)**	(0.2)
Net book value at 31 March *(note (i))*		**4.5**	4.8
Leasehold land payments in respect of:			
Owner-occupied properties		**4.5**	4.8

Note:

(i) Included in leasehold land payments is the amount of US$3.0 million (2016: US$3.0 million) paid for the acquisition of certain sites in the PRC.

9 Intangible Assets

	Brand US$ million	Technology US$ million	Total US$ million
Cost			
At 1 April 2015, 31 March 2016 and 1 April 2016	–	–	–
Additions upon acquisition of subsidiaries *(Note 25)*	20.0	1.1	21.1
At 31 March 2017	**20.0**	**1.1**	**21.1**
Accumulated amortisation			
At 1 April 2015, 31 March 2016 and 1 April 2016	–	–	–
Charge for the year	0.6	–	0.6
At 31 March 2017	**0.6**	**–**	**0.6**
Net book value at 31 March 2017	**19.4**	**1.1**	**20.5**
Net book value at 31 March 2016	–	–	–

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

10 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 24). The acquisition has been completed during the year ended 31 March 2017.

11 Investments

At 31 March 2017, investments of US$3.1 million (2016: US$3.1 million) included investment in an unlisted company designated at fair value through profit or loss of US$3.0 million (2016: US$3.0 million).

12 Goodwill

	2017 US$ million
Cost	
At 1 April 2015, 31 March 2016 and 1 April 2016	**–**
Arising from acquisition of subsidiaries *(Note 25)*	**31.1**
At 31 March 2017	**31.1**

Goodwill arose from the acquisition of the entire equity interest in LeapFrog and Snom. Details of the acquisition are set out in note 25 to the financial statements.

Impairment tests for cash generating units containing goodwill

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

	2017 US$ million
LeapFrog	**23.2**
Snom	**7.9**
	31.1

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

The recoverable amount of LeapFrog is determined based on value-in-use calculation. The calculation uses cash flow projections based on a five-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 1%. The discount rate used of approximately 14.7% is pre-tax and reflects specific risks related to the relevant operation.

The recoverable amount of Snom is determined based on value-in-use calculation. The calculation uses cash flow projections based on a five-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 1%. The discount rate used of approximately 15.2% is pre-tax and reflects specific risks related to the relevant operation.

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

13 Income Tax in the Consolidated Statement of Financial Position

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

	2017 US$ million	2016 US$ million
Provision for profits tax for the year	**(24.3)**	(22.3)
Provisional profits tax paid	**15.5**	20.9
	(8.8)	(1.4)
Balance of profits tax recoverable relating to prior years	**0.4**	0.1
	(8.4)	(1.3)
Represented by:		
Taxation recoverable *(note (i))*	**2.4**	2.3
Taxation payable *(note (i))*	**(10.8)**	(3.6)
	(8.4)	(1.3)

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.

13 Income Tax in the Consolidated Statement of Financial Position (Continued)

(b) The components of deferred tax assets/(liabilities) and the movements for the years ended 31 March 2016 and 31 March 2017 are as follows:

	Note	Unutilised tax losses US$ million	Intangible assets arising from business combination US$ million	Other temporary differences US$ million	Total US$ million
Deferred tax arising from:					
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
At 1 April 2016		–	–	4.0	4.0
Additions upon acquisition of subsidiaries	25	–	(2.5)	0.1	(2.4)
Credited/(Charged) to consolidated statement of profit or loss	4	3.3	0.1	(0.3)	3.1
Charged to other comprehensive income		–	–	(0.9)	(0.9)
At 31 March 2017		**3.3**	**(2.4)**	**2.9**	**3.8**

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

	2017 US$ million	2016 US$ million
Deferred tax assets	**7.0**	4.0
Deferred tax liabilities	**(3.2)**	–
	3.8	4.0

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$24.6 million (2016: US$4.7 million) arising from unused tax losses sustained in the operations of certain subsidiaries of US$84.9 million (2016: US$28.8 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 2017.

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.

14 Stocks

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

	2017 US$ million	2016 US$ million
Raw materials	**108.1**	96.4
Work in progress	**33.0**	28.8
Finished goods	**183.8**	160.2
	324.9	285.4

Stocks carried at net realisable value at 31 March 2017 amounted to US$11.2 million (2016: US$8.0 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:

	2017 US$ million	2016 US$ million
Carrying amount of stocks sold	**1,381.4**	1,266.1
Write-down of stocks	**10.2**	8.3
Reversal of write-down of stocks	**(1.7)**	(1.2)
	1,389.9	1,273.2

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.

15 Debtors, Deposits and Prepayments

	Note	**2017 US$ million**	2016 US$ million
Trade debtors (Net of allowance for doubtful debts of US$8.1 million (2016: US$5.9 million))	15(a)&(b)	**275.4**	230.3
Other debtors, deposits and prepayments		**44.0**	30.4
Forward foreign exchange contracts held as cash flow hedging instruments	23(b)&(d)	**6.2**	5.5
		325.6	266.2

All of other debtors, deposits and prepayments apart from the amounts of US$3.4 million (comprised largely of rental deposits) (2016: US$2.9 million) are expected to be recovered or recognised as an expense within one year.

15 Debtors, Deposits and Prepayments (Continued)

(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:

	2017 US$ million	2016 US$ million
0-30 days	**144.7**	130.0
31-60 days	**92.0**	59.4
61-90 days	**30.6**	35.2
>90 days	**8.1**	5.7
Total	**275.4**	230.3

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 2017, the Group's trade debtors of US$8.1 million (2016: US$5.9 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	2017 US$ million	2016 US$ million
At 1 April		**5.9**	6.0
Impairment loss recognised	2	**2.5**	0.6
Impairment loss written back	2	**–**	(0.3)
Uncollectible amounts written off		**–**	(0.5)
Effect of changes in exchange rates		**(0.3)**	0.1
At 31 March		**8.1**	5.9

(c) Trade debtors that are not impaired

As at 31 March 2017, 97% (2016: 98%) of the Group's trade debtors were not impaired, of which 100% (2016: 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.

16 Deposits and Cash

	2017 US$ million	2016 US$ million
Short term bank deposits	**2.1**	5.0
Cash at bank and in hand	**266.7**	268.0
Cash and cash equivalents	**268.8**	273.0

Deposits and cash as at 31 March 2017 include US$14.7 million (2016: US$22.0 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.

17 Creditors and Accruals

	Note	2017 US$ million	2016 US$ million
Trade creditors	17(a)	**227.2**	188.4
Other creditors and accruals	17(b)	**194.5**	156.3
Forward foreign exchange contracts held as cash flow hedging instruments	23(b)&(d)	**0.5**	0.6
		422.2	345.3

(a) Ageing Analysis

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

	2017 US$ million	2016 US$ million
0-30 days	**81.7**	71.8
31-60 days	**59.8**	36.9
61-90 days	**44.7**	52.7
>90 days	**41.0**	27.0
Total	**227.2**	188.4

(b) Other creditors and accruals

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

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

18 Provisions for Defective Goods Returns and Other Liabilities

At 31 March 2017, provisions of US$34.9 million (2016: US$31.5 million) include provisions for defective goods returns of US$21.5 million (2016: US$20.9 million) and other liabilities of US$13.4 million (2016: US$10.6 million).

Movement of provision for defective goods returns is as follows:

	2017 US$ million	2016 US$ million
At 1 April	**20.9**	22.0
Additional provisions charged to consolidated statement of profit or loss	**26.8**	21.3
Additions upon acquisition of subsidiaries	**2.3**	–
Utilised during the year	**(28.5)**	(22.4)
At 31 March	**21.5**	20.9

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.

19 Secured Bank Loans

At 31 March 2017, the secured bank loans were repayable as follows:

	2017 US$ million	2016 US$ million
Within 1 year or on demand	**0.7**	–
After 1 year but within 2 years	**0.7**	–
After 2 years but within 5 years	**0.3**	–
	1.0	–
	1.7	–

The secured bank loans were secured by stocks with carrying value of US$1.7 million.

During the year ended 31 March 2017, all of the Group's secured bank loans were subject to the fulfilment of certain covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans drawn down would become payable on demand. The Group regularly monitors its compliance with these covenants. None of the covenants relating to loans drawn down had been breached during the year ended 31 March 2017. Details of the Group's management of liquidity risk are set out in note 23(d).

20 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$18.0 million (2016: US$17.5 million) and US$0.9 million (2016: 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 2017 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:

	2017 US$ million	2016 US$ million
Fair value of Scheme assets	**31.9**	28.7
Present value of funded defined benefit obligations	**(34.4)**	(33.8)
Net obligations on defined benefit scheme recognised in the consolidated statement of financial position	**(2.5)**	(5.1)

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$1.4 million in contributions to defined benefit retirement scheme in the year ending 31 March 2018.

(ii) Movement in fair value of Scheme assets:

	2017 US$ million	2016 US$ million
At 1 April	**28.7**	28.8
Interest income on Scheme assets	**0.3**	0.5
Return on Scheme assets excluding interest income	**2.3**	(1.7)
Actual Group's contributions	**1.4**	1.4
Actual benefits paid	**(0.7)**	(0.2)
Administrative expenses paid from Scheme assets	**(0.1)**	(0.1)
At 31 March	**31.9**	28.7

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

	2017 US$ million	2016 US$ million
At 1 April	**33.8**	31.8
Actuarial losses arising from changes in liability experience	**–**	0.4
Actuarial gains arising from changes in financial assumptions	**(0.8)**	(0.4)
Interest cost	**0.4**	0.5
Current service cost	**1.7**	1.7
Actual benefits paid	**(0.7)**	(0.2)
At 31 March	**34.4**	33.8

The weighted average duration of the defined benefit obligations is 7.5 years (2016: 8.3 years).

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

	Note	2017 US$ million	2016 US$ million
Current service cost		**1.7**	1.7
Net interest cost on net defined benefit liability		**0.1**	–
Administrative expenses paid from Scheme assets		**0.1**	0.1
Amounts recognised in profit or loss	2	**1.9**	1.8
Actuarial gains		**(0.8)**	–
Return on Scheme assets excluding interest income		**(2.3)**	1.7
Amounts recognised in other comprehensive income		**(3.1)**	1.7
Total defined benefit costs		**(1.2)**	3.5

20 Pension Schemes (Continued)

(b) Defined benefit scheme (Continued)

(v) Scheme assets consist of the following:

	2017 US$ million	2016 US$ million
Equity securities:		
– Financial institutions	**6.0**	4.5
– Non-financial institutions	**12.4**	11.2
	18.4	15.7
Bonds:		
– Government	**4.9**	5.3
– Non-government	**7.9**	7.1
	12.8	12.4
Cash and others	**0.7**	0.6
	31.9	28.7

(vi) The significant actuarial assumptions used as at 31 March 2017 (expressed as weighted average) and sensitivity analysis are as follows:

	2017	2016
Discount rate	**1.5%**	1.2%
Future salary increases	**4.5%**	4.5%

The below analysis shows how the defined benefit obligation as at 31 March 2017 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	**(0.6)**	0.7
Future salary increases	**0.6**	(0.6)

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.

21 Share Capital, Share Options and Share Purchase Scheme

(a) Share Capital

	2017 US$ million	2016 US$ million
Authorised		
Ordinary shares: 400,000,000 (2016: 400,000,000) of US$0.05 each	**20.0**	20.0

	2017		2016	
	No. of shares	US$ million	No. of shares	US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At the beginning and end of year	**251,182,133**	**12.5**	251,182,133	12.5

The Company's issued and fully paid shares as at 31 March 2017 included 384,500 shares (2016: 42,600 shares) held in trust by the trustee under the Share Purchase Scheme and 8,700 shares (2016: 9,100 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 21(c).

The company level statement of financial position can be found in note 27.

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

(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 as at the date of the Annual Report. During the financial year and since the adoption of the Scheme, no options were granted, exercised, cancelled or lapsed under 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.

(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 adopted the French Subplan. The Awarded Shares will be granted to the eligible French employees of the Group pursuant to the Share Purchase Scheme and the French Subplan. 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. The new shares, when issued and fully paid, will rank pari passu among themselves and with the shares currently in issue. 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 2017, 464,400 shares (2016: 77,000 shares) were purchased on the Stock Exchange pursuant to the Share Purchase Scheme. The total amount paid to purchase such shares during the financial year was approximately US$5.3 million (2016: US$1.0 million).

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

(c) Share Purchase Scheme (Continued)

Details of the Awarded Shares (including those awarded pursuant to the French Subplan) which have been granted to the executive Directors, senior management and eligible employees during each of the years ended 31 March 2016 and 31 March 2017, respectively, are as follows:

Date of award *(Note 1)*	Average purchase cost per Awarded Share	Number of Awarded Shares granted	Cost of related Awarded Shares	Vesting Period for the Award Shares granted under the Share Purchase Scheme	Vesting Period for the Awarded Shares granted under the French Subplan *(Note 5)*
Year ended 31 March 2016					
15 June 2015	HK$101.23	109,000	US$1.4 million	15 June 2015 to 21 June 2015	15 June 2017 to 21 June 2017
Year ended 31 March 2017					
20 June 2016	HK$90.30	122,500	US$1.4 million	20 June 2016 to 26 June 2016	20 June 2018 to 26 June 2018
20 December 2016	HK$90.30	300,000 *(Note 2)*	US$3.5 million	31 May 2017 to 6 June 2017	–
28 February 2017	HK$90.30	31,000	US$0.4 million	31 May 2017 to 6 June 2017	–

Notes:

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

(2) 160,000 Awarded Shares were granted to executive Directors pursuant to the Share Purchase Scheme during the financial year.

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

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

(5) These Awarded Shares included 4,400 Awarded Shares (2016: 4,300 Awarded Shares) granted under the French Subplan during the financial year.

As at 31 March 2017, a total of 384,500 shares (2016: 42,600 shares) were held in trust by the trustee under the Share Purchase Scheme and 8,700 shares (2016: 9,100 shares) were held in trust by the trustee under the French Subplan which were granted to the eligible French employees and remain unvested. The trustee can exercise the voting rights of the shares held in trust in any general meetings as shareholder as it sees fit (and the Company has no power to influence how the trustee should exercise this discretion). Dividends derived from the shares held under the said trust will be reinvested to acquire further shares.

During the year ended 31 March 2017, share-based payment expenses of US$5.6 million (2016: US$1.4 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 US$1.7 million bank borrowings as at 31 March 2017 (2016: US$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 Group's adjusted capital at 31 March 2016 and 31 March 2017 is as follows:

	2017 US$ million	2016 US$ million
Total equity	**584.7**	525.0
Less: Proposed dividends	**(133.1)**	(62.8)
	451.6	462.2

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

22 Reserves

(a) The Group

Details of the movements in reserves of the Group during the years ended 31 March 2016 and 31 March 2017 are set out in the consolidated statement of changes in equity.

(b) The Company

	Note	Share capital US$ million	Share premium US$ million	Shares held for Share Purchase Scheme US$ million	Exchange reserve US$ million	Revenue reserve US$ million	Total equity US$ million
At 1 April 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		–	–	–	–	(153.2)	(153.2)
Interim dividend in respect of the current year	5	–	–	–	–	(42.7)	(42.7)
Shares purchased for Share Purchase Scheme	21(c)	–	–	(1.0)	–	–	(1.0)
Vesting of shares of Share Purchase Scheme	21(c)	–	–	1.4	–	–	1.4
At 31 March 2016 and 1 April 2016		12.5	148.8	(0.5)	(1.0)	206.9	366.7
Changes in equity for the year ended 31 March 2017							
Comprehensive income							
Profit for the year		–	–	–	–	170.0	170.0
Total comprehensive income for the year		–	–	–	–	170.0	170.0
Final dividend in respect of the previous year	5	–	–	–	–	(62.8)	(62.8)
Interim dividend in respect of the current year	5	–	–	–	–	(42.7)	(42.7)
Shares purchased for Share Purchase Scheme	21(c)	–	–	(5.3)	–	–	(5.3)
Vesting of shares of Share Purchase Scheme	21(c)	–	–	5.6	–	–	5.6
At 31 March 2017		**12.5**	**148.8**	**(0.2)**	**(1.0)**	**271.4**	**431.5**

Reserves of the Company available for distribution to shareholders amounted to US$271.4 million (2016: US$206.9 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 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.

23 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 34.8% (2016: 32.2%) 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 2017, the notional principal amounts of these outstanding forward foreign exchange contracts were US$159.7 million (2016: US$102.0 million) with net positive fair value of US$2.2 million (2016: US$0.2 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 2017, the notional principal amounts of these outstanding forward foreign exchange contracts for hedging highly probable forecast transactions were US$198.8 million (2016: US$184.9 million) with net positive fair value of US$3.5 million (2016: US$4.7 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 2017, 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 2017 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 2016 and 31 March 2017.

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 2016.

(c) Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rates changes on income-earning financial assets and secured bank loans. 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 net of secured bank loans

	2017		2016	
	Effective interest rate	**US$ million**	Effective interest rate	US$ million
Variable rate	**0.16%**	**266.7**	0.29%	268.0
Fixed rate	**0.58%**	**0.4**	1.94%	5.0

Interest rate sensitivity

At the end of the respective reporting period, if interest rates had been increased by 25 basis points and all other variables were held constant, the Group's profit after tax and total equity would increase by approximately US$0.3 million and US$0.3 million for the years ended 31 March 2017 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 and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

23 Financial Risk Management and Fair Values (Continued)

(d) Liquidity risk (Continued)

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

		Contractual undiscounted cash flows				
	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 2017						
Trade creditors	**227.2**	**227.2**	**227.2**	**–**	**–**	**–**
Other creditors and accruals	**194.5**	**194.5**	**194.5**	**–**	**–**	**–**
Secured bank loans	**1.7**	**1.7**	**0.7**	**0.7**	**0.3**	**–**
Derivatives settled gross:						
Forward foreign exchange contracts						
– cash flow hedge *(note 23(b)(i))*						
– outflow		**356.2**	**356.2**	**–**	**–**	**–**
– inflow		**(361.9)**	**(361.9)**	**–**	**–**	**–**
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 23(b)(i))*						
– outflow		286.7	286.7	–	–	–
– inflow		(291.6)	(291.6)	–	–	–

(e) Fair values measurement

The fair values of trade debtors, deposits and cash, secured bank loans 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 2016 and 31 March 2017.

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 2017, the fair values of the forward foreign exchange contracts included in financial assets and financial liabilities were US$6.2 million (31 March 2016: US$5.5 million) and US$0.5 million (31 March 2016: US$0.6 million) respectively. At 31 March 2017 and 31 March 2016, the fair values of all forward foreign exchange contracts were categorised as Level 2.

During the year ended 31 March 2017, 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 discounting the difference between the forward exchange rates at the end of the reporting period and the contractual forward exchange rates.

24 Commitments

	2017 US$ million	2016 US$ million
(i) Capital commitments for property, plant and equipment		
Authorised but not contracted for	**32.8**	29.6
Contracted but not provided for	**6.1**	14.5
	38.9	44.1
(ii) Capital commitments for investment in a subsidiary		
Authorised but not contracted for	**–**	–
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	**21.5**	18.0
Between one and two years	**20.3**	17.7
Between two and five years	**42.0**	43.6
In more than five years	**37.8**	16.9
	121.6	96.2

24 Commitments (Continued)

In November 2010, 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 are 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 2017 amounted to US$3.0 million (2016: US$1.4 million), of which US$2.3 million and US$0.6 million are payable in the financial years ending 31 March 2018 and 2019 respectively and the remaining US$0.1 million is payable before the financial year ending 31 March 2022.

25 Acquisition of Subsidiaries

(a) LeapFrog Enterprises, Inc.

On 5 February 2016, Bonita Merger Sub, L.L.C., an indirect wholly-owned subsidiary of the Company, entered into a merger agreement with 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$71.2 million, upon which LeapFrog has become an indirect wholly-owned subsidiary of the Company.

The acquisition will bring synergistic benefits to the Group and will enhance the electronic learning products business worldwide. The goodwill of US$23.2 million arising from the acquisition is attributable to acquired economies of scale expected from combining the operations of the Group and LeapFrog. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition-related costs of US$1.4 million and US$0.5 million have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the years ended 31 March 2016 and 31 March 2017 respectively.

(i) Details of net assets acquired and goodwill in respect of the acquisition of LeapFrog at the acquisition date were as follows:

	Net assets acquired and goodwill US$ million
Aggregate consideration	**71.2**
Less: Estimated fair value of net assets acquired	**(48.0)**
Goodwill on acquisition	**23.2**

	Estimated fair value US$ million
Tangible assets	**0.3**
Intangible asset – Brand	**20.0**
Deferred tax assets	**0.6**
Stocks	**18.3**
Debtors, deposits and prepayments	**36.1**
Taxation recoverable	**0.2**
Deposits and cash	**54.8**
Creditors and accruals	**(68.9)**
Provisions for defective goods returns and other liabilities	**(10.5)**
Deferred tax liabilities	**(2.9)**
Net identifiable assets and liabilities	**48.0**

	Net cash outflow US$ million
Purchase consideration settled in cash	**71.2**
Less: Deposits and cash of LeapFrog acquired	**(54.8)**
	16.4

The fair value of debtors, deposits and prepayments is US$36.1 million and includes trade debtors with a fair value of US$26.4 million. The gross contractual amount for trade debtors due is US$27.4 million, of which US$1.0 million is expected to be uncollectible.

(ii) Revenue and profit contribution

Following the acquisition, LeapFrog contributed revenue and loss after taxation of US$173.8 million and US$16.5 million respectively for the year ended 31 March 2017.

The effect to the Group's revenue and loss for the year ended 31 March 2017 would not have been materially different from US$173.8 million and US$16.5 million respectively as if the above acquisition had taken place on 1 April 2016.

(b) Snom Technology GmbH

On 21 October 2016, the Group entered into a binding definitive agreement with Snom, the pioneer and a leading brand of professional and enterprises Voice over Internet Protocol ("VoIP") telephones. Under the terms of the agreement, the Group agreed to acquire 100% share capital of Snom.

The transaction was completed on 21 November 2016 with total consideration of approximately US$15.1 million. Upon completion, Snom has become an indirect wholly-owned subsidiary of the Company.

The main synergies of the acquisition will be in hardware and software development, expanded markets channels in VoIP telephony, and improvement in operational efficiency. The goodwill of US$7.9 million arising from the acquisition is attributable to acquired economies of scale expected from combining the operations of the Group and Snom. None of the goodwill recognised is expected to be deductible for income tax purpose.

25 Acquisition of Subsidiaries (Continued)

(b) Snom Technology GmbH (Continued)

Acquisition-related costs of US$0.2 million have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the year ended 31 March 2017.

(i) Details of net assets acquired and goodwill in respect of the acquisition of Snom at the acquisition date were as follows:

	Net assets acquired and goodwill US$ million
Aggregate consideration	**15.1**
Less: Estimated fair value of net assets acquired	**(7.2)**
Goodwill on acquisition	**7.9**

	Estimated fair value US$ million
Tangible assets	**1.9**
Intangible asset – Technology	**1.1**
Stocks	**6.7**
Debtors, deposits and prepayments	**3.0**
Deposits and cash	**3.3**
Creditors and accruals	**(5.0)**
Secured bank loans	**(3.7)**
Deferred tax liabilities	**(0.1)**
Net identifiable assets and liabilities	**7.2**

	Net cash outflow US$ million
Purchase consideration settled in cash	**15.1**
Less: Deposits and cash of Snom acquired	**(3.3)**
	11.8

The fair value of debtors, deposits and prepayments is US$3.0 million and includes trade debtors with a fair value of US$2.4 million. The gross contractual amount for trade debtors due is US$2.5 million, of which US$0.1 million is expected to be uncollectible.

(ii) Revenue and profit contribution

Following the acquisition, Snom contributed revenue and profit after taxation of US$9.6 million and US$0.5 million respectively for the year ended 31 March 2017.

The effect to the Group's revenue and loss for the year ended 31 March 2017 would not have been materially different from US$28.1 million and US$0.2 million respectively if the above acquisition had taken place on 1 April 2016.

26 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 and taken steps 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 litigation and some of the investigations are still ongoing 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 2017, 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$426.9 million (2016: 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 2017, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

27 Company-level Statement of Financial Position

	Note	**2017 US$ million**	2016 US$ million
Non-current asset			
Investments in subsidiaries	27(a)	**227.5**	227.5
Current assets			
Amounts due from subsidiaries		**392.8**	326.9
Deposits and cash		**1.7**	1.3
		394.5	328.2
Current liabilities			
Amounts due to subsidiaries		**(189.9)**	(188.4)
Creditors and accruals		**(0.6)**	(0.6)
		(190.5)	(189.0)
Net current assets		**204.0**	139.2
Net assets		**431.5**	366.7
Capital and reserves			
Share capital	21(a)	**12.5**	12.5
Reserves	22(b)	**419.0**	354.2
Total equity		**431.5**	366.7

Approved and authorised for issue by the Board of Directors on 16 May 2017.

Allan WONG Chi Yun
Director

PANG King Fai
Director

27 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 2017 are set out below:

Name of subsidiary	Particulars of issued and paid up capital	Percentage of interest held by the Group	Principal activity
Incorporated/established and operating in Hong Kong:			
VTech Communications Limited	1,000 ordinary shares 5,000,000 deferred shares	*100	Design, manufacture and sale of electronic products
VTech Electronics Limited	5,000,000 ordinary shares	*100	Design, manufacture and distribution of electronic products
VTech Telecommunications Limited	1,000 ordinary shares 5,000,000 deferred shares	*100	Design, manufacture and distribution of telecommunication products
Perseus Investments Limited	1,000 ordinary shares 1,000 deferred shares	100	Property holding
Valentia Investment Limited	1,000 ordinary shares 1,000 deferred shares	100	Property holding
VTech Finance Limited	1,000,000 ordinary shares	*100	Provision of group financing services
Incorporated/established and operating in Australia:			
VTech Telecommunications (Australia) Pty Limited	AUD1	*100	Sale of telecommunication products
VTech Electronics (Australia) Pty Limited	AUD1	*100	Sale of electronic products
Incorporated/established and operating in Canada:			
VTech Technologies Canada Ltd.	Class A CAD5,000 Class B CAD195,000	*100 *100	Sale of telecommunication and electronic products
Incorporated/established and operating in France:			
VTech Electronics Europe S.A.S.	EUR450,000	*100	Sale of electronic products
Incorporated/established and operating in Germany:			
VTech Electronics Europe GmbH	EUR500,000	*100	Sale of electronic products
VTech IAD GmbH	EUR25,000	*100	Development of broadband connectivity software
Snom Technology GmbH	EUR144,578	*100	Design, manufacturing and distribution of telecommunication products
Incorporated/established and operating in the Netherlands:			
VTech Electronics Europe B.V.	EUR18,100	*100	Sale of electronic products
Incorporated/established and operating in the People's Republic of China:			
VTech (Dongguan) Communications Limited**	HK$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 Telecommunications (Shenzhen) Limited**	HK$5,000,000	*100	Sale of telecommunication products
VTech Electronics Industrial (Shenzhen) Co., Ltd**	HK$10,000,000	*100	Sale of telecommunication and electronic products
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
Leap Frog Toys (UK) Limited	GBP5,546,007	*100	Sale of electronic products

27 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 2017 are set out below: (Continued)

Name of subsidiary	Particulars of issued and paid up capital	Percentage of interest held by the Group	Principal activity
Incorporated/established and operating in the United States:			
VTech Electronics North America, L.L.C.	US$22,212,997	*100	Sale of electronic products
VTech Communications, Inc.	US$300,000	*100	Sale of telecommunication products
LeapFrog Enterprises, Inc.	US$100 common stock	*100	Sale and development of electronic products

* *Indirectly held by subsidiary companies*
** *Wholly-owned foreign enterprise*

(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 21(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 21(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.

28 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.

29 Possible Impact of Amendments, New Standards and Interpretations issued but not yet effective for the Annual Accounting Period ended 31 March 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the accounting period ended 31 March 2017 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
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments (2014)*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	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 and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards. The adoption of IFRS 15 and amendments to IAS 7 and IAS 12 is unlikely to have a significant impact on the Group's financial performance and financial position.

IFRS 9, Financial Instruments

(i) Classification and measurement

IFRS 9, *Financial Instruments*, is relevant to the Group and will become effective for accounting periods beginning on or after 1 January 2018. IFRS 9 contains three principal classification categories for financial assets: measured at (a) amortised cost, (b) fair value through profit or loss and (c) fair value through other comprehensive income. If an equity security is designated as fair value through other comprehensive income, then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling. Based on the preliminary assessment, the group expects that its financial assets currently measured at fair value through profit or loss will continue with its classification and measurements upon the adoption of IFRS 9.

(ii) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade debtors and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

29 Possible Impact of Amendments, New Standards and Interpretations issued but not yet effective for the Annual Accounting Period ended 31 March 2017 (Continued)

IFRS 9, Financial Instruments (Continued)

(iii) Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

IFRS 16, Leases

IFRS 16, *Leases*, is relevant to the Group and will become effective for accounting periods beginning on or after 1 January 2019. The standard eliminates the lessee's classification of leases as either operating leases or finance leases and, instead, introduces a single lease accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for land and buildings which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 24 to the financial statements, at 31 March 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to US$121.6 million for land and buildings, the majority of which is payable between one and five years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16.

30 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 20 and 23 contain information about the assumptions and their risk factors relating to pension scheme obligations and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

Valuation of stocks

The Group performs regular reviews of the carrying amounts of stocks with reference to stock ageing report, anticipated future selling prices, sales forecasts and management experience and judgement. Based on this review, a write-down of stocks will be made when the estimated net realisable value of stocks decline below their carrying amounts. Due to changes in customers' preferences, actual saleability of goods may be different from estimation and the statement of profit or loss in future accounting periods could be affected by differences in this estimation.

Business Combination

For the business combinations undertaken by the Group, the Group allocates the costs of the acquisition to the assets acquired and the liabilities assumed based on their estimated fair value on the date of acquisition. This process is commonly referred to as the purchase price allocation. As part of the purchase price allocation, the Group is required to determine the fair value of any identifiable intangible assets acquired. The determination of the fair value of the intangible assets acquired involves certain judgement and estimates. These judgements can include, but are not limited to, the cash flows that an asset is expected to generate in the future.

The fair values of the identifiable intangible assets were determined by the Group with inputs from the independent appraisers using mainly the income approach. Future cash flows are predominantly based on the historical pricing and expense levels, taking into consideration the relevant market size and growth factors, and involves making a number of assumptions including growth rates, royalty rates and product life cycles. The resulting cash flows are then discounted at a rate reflecting specific risks related to the relevant operation.

A change in the amount allocated to identifiable intangible assets would have an offsetting effect on the amount of goodwill recognised from the acquisition and would change the amount of amortisation expense recognised related to those identifiable intangible 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, except in the case of goodwill. The Group estimates the asset's recoverable amount when any such indication exists. In addition, for goodwill, the Group estimates the recoverable amount to determine whether or not there is any indication of impairment. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and these risks specific to the assets. The preparation of projected future cash flows involves the estimation of future revenue and operating costs which are based on reasonable assumptions supported by information available to the Group. Changes in the estimates would result in additional impairment provisions or reversal of impairment in future years.

Impairment of trade debtors

Trade debtors measured at amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recorded. Objective evidence of impairment includes observable data that comes to the attention of the Group about credit history of the Group's customers and current market and customer specific conditions. If there is a change in the objective evidence of impairment in relation to the trade debtors, the actual impairment loss would be higher or lower than the allowance for doubtful debts recognised in the financial statements.

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.

	Consolidated statement of financial position as at 31 March				
	2013 US$ million	2014 US$ million	2015 US$ million	2016 US$ million	**2017** **US$ million**
Non-current assets					
Tangible assets	88.4	68.6	67.0	68.4	**72.1**
Leasehold land payments	5.2	5.1	5.0	4.8	**4.5**
Intangible assets	–	–	–	–	**20.5**
Goodwill	–	–	–	–	**31.1**
Other non-current assets	4.7	2.6	4.6	10.4	**10.1**
	98.3	76.3	76.6	83.6	**138.3**
Current assets					
Stocks	276.9	265.9	290.2	285.4	**324.9**
Debtors, deposits and prepayments	257.1	235.8	259.9	266.2	**325.6**
Deposits and cash	308.6	322.9	294.2	273.0	**268.8**
Other current assets	0.4	0.9	–	2.3	**2.4**
	843.0	825.5	844.3	826.9	**921.7**
Current liabilities	(366.0)	(337.4)	(377.1)	(380.4)	**(468.6)**
Net current assets	477.0	488.1	467.2	446.5	**453.1**
Total assets less current liabilities	575.3	564.4	543.8	530.1	**591.4**
Non-current liabilities					
Secured bank loans	–	–	–	–	**(1.0)**
Net obligation on defined benefit scheme	(6.5)	(2.0)	(3.0)	(5.1)	**(2.5)**
Deferred tax liabilities	(4.5)	–	–	–	**(3.2)**
	(11.0)	(2.0)	(3.0)	(5.1)	**(6.7)**
Net assets/Total equity	564.3	562.4	540.8	525.0	**584.7**

	Consolidated statement of profit or loss for the years ended 31 March				
	2013 US$ million	2014 US$ million	2015 US$ million	2016 US$ million	**2017** **US$ million**
Revenue	1,858.0	1,898.9	1,879.8	1,856.5	**2,079.3**
Profit before taxation	225.6	228.0	221.7	203.1	**200.1**
Taxation	(24.1)	(24.2)	(23.6)	(21.7)	**(21.1)**
Profit for the year and attributable to shareholders of the Company	201.5	203.8	198.1	181.4	**179.0**
Basic earnings per share (US cents)	80.6	81.3	78.9	72.2	**71.3**

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
Patrick WANG Shui Chung
WONG Kai Man

Audit Committee

WONG Kai Man *(Chairman)*
William FUNG Kwok Lun
Patrick WANG Shui Chung

Nomination Committee

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

Remuneration Committee

Patrick WANG Shui Chung *(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

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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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