vtech

VTech Holdings Limited

HKSE : 303

Annual Report 2019

Contents

Corporate Profile

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

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

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

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

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

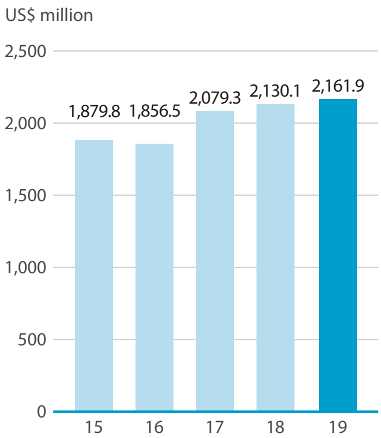
Shares of VTech Holdings Limited are listed on The Stock Exchange of Hong Kong Limited (HKSE: 303).

Financial Highlights

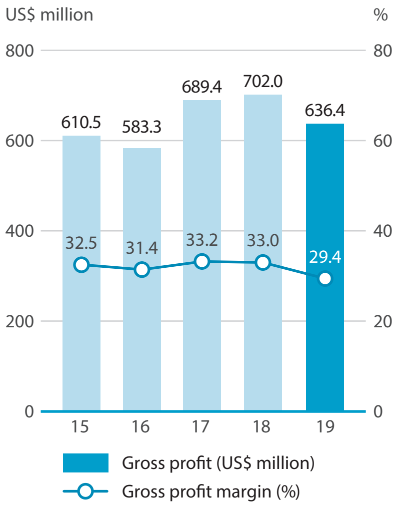
For the year ended 31 March	2019	2018	Change
Operating results (US$ million)			
Revenue	**2,161.9**	2,130.1	1.5%
Gross profit	**636.4**	702.0	-9.3%
Operating profit	**193.2**	231.3	-16.5%
Profit before taxation	**192.3**	231.0	-16.8%
Profit attributable to shareholders of the Company	**171.3**	206.3	-17.0%
Financial position (US$ million)			
Cash generated from operations	**273.4**	201.6	35.6%
Deposits and cash	**237.0**	254.4	-6.8%
Shareholders' funds	**607.0**	646.6	-6.1%
Per share data (US cents)			
Earnings per share – basic	**68.2**	82.1	-16.9%
Earnings per share – diluted	**68.1**	82.1	-17.1%
Dividend per share – interim and final	**67.0**	80.0	-16.3%
Other data (US$ million)			
Capital expenditure	**37.3**	37.6	-0.8%
R&D expenditure	**77.2**	77.6	-0.5%
Key ratios (%)			
Gross profit margin	**29.4**	33.0	-3.6% pts
Operating profit margin	**8.9**	10.9	-2.0% pts
Net profit margin*	**7.9**	9.7	-1.8% pts
EBITDA/Revenue	**10.7**	12.6	-1.9% pts
Return on shareholders' funds	**28.2**	31.9	-3.7% pts

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

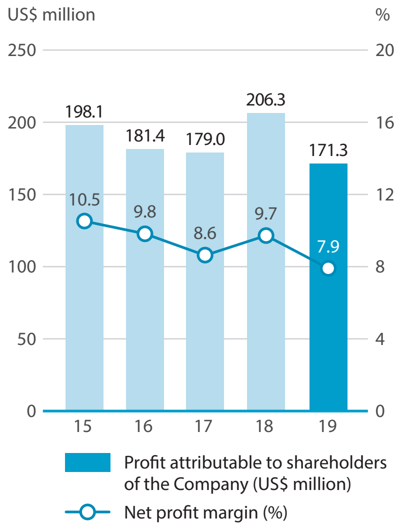
Group Revenue in Last 5 Years



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,

The financial year 2019 saw both achievements and challenges for VTech. Electronic learning products delivered a slight sales increase despite the absence of Toys"R"Us in many of the Group's major markets. Contract manufacturing services posted strong growth and the Group successfully integrated its recently acquired manufacturing facilities in Malaysia. The performance of telecommunication products was below expectations, however, which resulted in weaker-than-anticipated Group revenue and profit.

Results and Dividend

Group revenue for the year ended 31 March 2019 increased by 1.5% to US$2,161.9 million, led by higher sales in Europe and Asia Pacific.

Profit attributable to shareholders of the Company decreased by 17.0% to US$171.3 million. The decline was mainly due to the lower revenue of telecommunication (TEL) products, product mix and higher costs.

Basic earnings per share decreased by 16.9% to US68.2 cents, compared to US82.1 cents in the previous financial year.

The Board of Directors has proposed a final dividend of US50.0 cents per ordinary share, providing a full-year dividend of US67.0 cents per ordinary share, a 16.3% decrease from the US80.0 cents declared in the previous financial year. This represents a dividend payout ratio of 98.4%.

Costs

The gross profit margin of the Group declined from 33.0% in the financial year 2018 to 29.4% in the financial year 2019. The decrease was due to higher materials prices, in part arising from tight supply of certain components, product mix, as well as a rise in direct labour costs and manufacturing overheads.

US-China Trade Tension

During the financial year 2019, the US Government began to impose additional tariffs on Chinese imports. In total, around US$250 billion of goods from China to the US have been subjected to additional tariffs ranging from 10% to 25%. Negotiations have been underway regarding the trade arrangements between the two countries. On 10 May 2019, the tariffs on US$200 billion of Chinese imports were raised from 10% to 25%. In addition, about US$300 billion of Chinese goods could be made subject to 25% tariffs in the event an agreement is not reached.

As of today, none of VTech's electronic learning products (ELPs) or TEL products is subject to such tariffs. However, a number of the Group's contract manufacturing services (CMS) customers in the US are affected. Some of them are making plans to move part of their production from the Group's manufacturing facilities in Dongguan, mainland China to its recently acquired production facilities in Malaysia. Despite this, there was little impact on the Group revenue in the financial year 2019.

Our Business

The Group's ELPs business saw a slight revenue growth in the financial year 2019, as sales increases in North America and Asia Pacific offset a decline in Europe and Other Regions. In the calendar year 2018, VTech strengthened its position globally as the number one supplier of electronic learning toys from infancy through toddler and preschool[1].

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[1] *Sources: NPD Multi-Country Database Retail Tracking Service for projected US dollar sales in the US, Canada, France, Germany, the UK and Spain in the categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018*

MarketWise Consumer Insights LLC, Global Market Share Estimates. Ranking based on total retail sales in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018

The financial year 2019 was the first year of sales without the major toy retailer Toys"R"Us in the US, UK and Australian markets. Although the retailer had been one of the Group's top five customers, the measures taken by VTech to mitigate the impact and the efforts of other retailers to fill the gap in the market enabled the Group's ELPs revenue grow by 0.8% over the previous financial year. In continental Europe, sales were affected by tough market conditions in the Group's major European countries, compounded by the logistics issues in the first half of the financial year 2019.

Standalone products posted growth, with higher sales of LeapFrog branded products offsetting a decline in VTech branded products. The LeapFrog brand benefited from the launch of new standalone toys as part of a strategy to expand this side of the business. Platform products, however, saw sales decrease overall. There were strong performances from Kidizoom® Smartwatch DX2 and KidiBuzz®/KidiCom Max™, as well as continued growth in the Touch and Learn Activity Desk™ series. LeapStart® 3D, the new interactive learning system combining real books with 3D-like animation, was launched during the financial year 2019 and achieved good sell-through. This, together with LeapStart/MagiBook™ and LeapReader™, saw LeapFrog reading systems achieve overall growth. These gains, however, were insufficient to offset declining sales of children's educational tablets. The higher sales of standalone products contributed to an increase of their percentage share within total ELPs revenue, from 77% in the financial year 2018 to 79% in the financial year 2019, with that of platform products falling from 23% to 21%.

Sales of TEL products in the financial year 2019 were lower than anticipated, since sales in the second half failed to recover as expected. Growth in commercial phones was offset by declining sales of residential phones and other telecommunication products. The fall in sales was attributable to keen competition, supplier consolidation among US retailers and financial problems faced by some of the Group's customers.

Sales of residential phones declined by 23.4% year-on-year. This was mainly due to the continued contraction of the fixed-line telephone markets, compounded by the loss of shelf space in the club and consumer electronics channels in the US due to supplier consolidation. In the financial year 2019, VTech nonetheless retained its leadership position as the number one manufacturer of residential phones in the US[2].

Sales of commercial phones and other telecommunication products experienced a mixed performance. Commercial phones maintained a positive momentum. This was driven by higher sales of VoIP (Voice over Internet Protocol) phones, headsets and hotel phones. In the financial year 2019, a completely new series of Snom VoIP phones was launched. It includes a high-end model, which features a large, high resolution colour display, an entry-level model and IP-DECT systems and handsets. In contrast, sales of other telecommunication products decreased, as baby monitors, integrated access devices (IADs), CAT-iq (Cordless Advanced Technology – internet and quality) handsets, the CareLine range and wireless monitoring systems all saw declines. Commercial phones and other telecommunication products saw their share of total TEL products revenue increase further, from 42% in the previous financial year to 46% in the financial year 2019.

VTech will continue to focus on commercial phones and other telecommunication products to achieve revenue growth and improve the profitability of the TEL products business. For residential phones, the Group targets to recoup lost market share and consolidate its market leadership. The goal remains to deliver innovative products to customers in a cost efficient manner. In support of this strategy, the Group has recently taken steps to streamline the operations of the business to make it more responsive to the market. The restructuring has seen the appointment of a new president and re-organisation of the senior management team. Global resources in research and development (R&D) have been refocused, which is enabling the product design and development process to be strengthened. Sales and marketing and supply chain management are also being re-organised globally to increase their efficiency.

VTech's CMS posted its seventeenth consecutive year of growth in the financial year 2019. Growth was seen across the board, with the strongest performance coming from professional audio equipment, hearables and industrial products. During the financial year, the Group successfully integrated its recently acquired manufacturing facilities in Malaysia. As a result, professional audio equipment was boosted by a sales consolidation from the DJ equipment business that formed part of the acquisition. Sales of hearables increased, as the Group's existing customers launched new products and their products sold well. In addition, VTech gained market share as some orders from an existing customer were transferred in from competitors. Growth in industrial products was boosted by increased orders for printed circuit board assembly for note-counting devices and industrial printers, as well as higher demand from internet-connected smart thermostats and smart air-conditioning controls.

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

The consistent year-on-year growth delivered by VTech's CMS business bears witness to its excellent reputation, manufacturing know-how, stable management and outstanding customer service. It also endorses the Group's strategy of targeting the professional, industrial and commercial product categories, being strongly customer focused and continually adopting state-of-the-art manufacturing technology.

Outlook

Group revenue is difficult to gauge for the financial year 2020, as new tariffs may potentially be applied to practically all Chinese imports. VTech is now assessing the impact and taking steps to mitigate it, which includes expanding our newly acquired production facilities in Malaysia.

Meanwhile, the pressure on materials prices is forecast to abate and labour costs to be stable in this financial year, which are positive to the gross margin.

In ELPs, the Group aims to strengthen its market leadership in North America and Europe through new product launches. For standalone products, this will be led by the expansion of core learning products under both the VTech and LeapFrog brands. In North America, VTech will begin to sell its first robotics toy, Myla the Magical Unicorn™, which was introduced in the Group's key European markets last year. In the LeapFrog brand, LeapBuilders® will be introduced in the US, following its positive reception already in Europe. Platform products will see several key items launched in the financial year 2020. The LeapFrog brand will introduce RockIt Twist™, a brand new handheld gaming product targeting children aged between four and eight. The LeapStart range will be strengthened by the addition of LeapStart Go. A newly designed version of KidiBuzz/KidiCom Max, adding augmented reality games and live face-tracking photo filters, will be introduced in the US and UK to boost sales of the VTech range. Continued growth in Australia and mainland China will support higher sales in Asia Pacific.

For TEL products, the core strategy is to stabilise revenue through more new product introductions. Sales of commercial phones and other telecommunication products are forecast to increase. The roll-out of the new product line under the Snom brand in the financial year 2019 has laid the groundwork for higher sales of VoIP phones. These models will soon be joined by a new cordless conference phone with wireless microphones. The momentum in headsets will continue as more products are launched, while further growth in hotel phones will be supported by the addition of customers in Macau and New Zealand. Sales of baby monitors, CAT-iq handsets and IADs will benefit from new product launches. In residential phones, the decline in sales is expected to slow as VTech recoups some lost market share in the US and becomes the sole supplier to some key retail customers.

CMS is on track for an eighteenth consecutive year of growth, subject to further trade developments between the US and China. Professional audio equipment will be boosted by rising sales at existing customers and the contribution of the new DJ equipment business. The strong momentum in hearables will continue, as a major customer will launch a new generation of headsets and transfer the production to VTech. Industrial products will also grow. Orders for internet-connected smart thermostats and smart air-conditioning controls are expected to rise, as the existing customer's complete product line enters full production. The medical and health products business will benefit from the decision by a customer to let VTech manufacture the finished products of its hearing aids.

A number of new initiatives will help CMS to expand revenue and lower costs. An NPI (New Product Introduction) Centre is being set up within the Group's existing R&D facilities in Shenzhen, with the aim of capturing business opportunities from start-up companies. The Group is also taking steps to enhance supplier management. This will secure the best level of services from suppliers during critical supply situations.

Finally, as ever my thanks go to my fellow directors for their sage advice during the year, to our business partners and shareholders for their support, and to all my colleagues at VTech for their hard work and dedication. VTech has the dedicated teams globally, solid R&D capabilities and strong balance sheet to cope with the current uncertainties and deliver increasing value to shareholders.

Allan Wong Chi Yun
Chairman

Hong Kong, 20 May 2019

Financial Overview

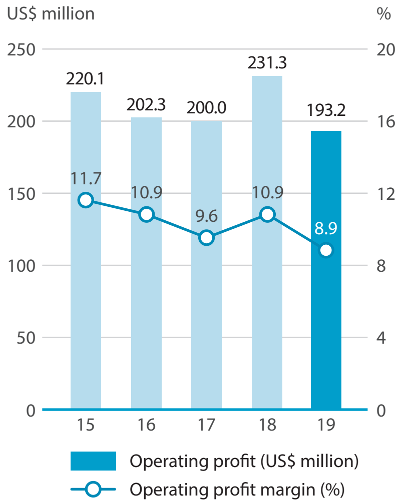
For the year ended 31 March 2019	**2019 US$ million**	2018 US$ million	Change US$ million
Revenue	**2,161.9**	2,130.1	31.8
Gross profit	**636.4**	702.0	(65.6)
Gross profit margin	**29.4%**	33.0%	
Other income	**5.9**	4.2	1.7
Total operating expenses	**(449.1)**	(474.9)	25.8
Total operating expenses as a percentage of revenue	**20.8%**	22.3%	
Operating profit	**193.2**	231.3	(38.1)
Operating profit margin	**8.9%**	10.9%	
Net finance expense	**(0.9)**	(0.3)	(0.6)
Profit before taxation	**192.3**	231.0	(38.7)
Taxation	**(21.0)**	(24.7)	3.7
Effective tax rate	**10.9%**	10.7%	
Profit for the year and attributable to shareholders of the Company	**171.3**	206.3	(35.0)
Net profit margin	**7.9%**	9.7%	

Revenue

Group revenue for the year ended 31 March 2019 rose by 1.5% to US$2,161.9 million compared with the previous financial year. The increase in revenue was largely driven by the higher sales in Europe and Asia Pacific, which offset the decrease in revenue in North America and other regions.

	2019		2018		Increase / (decrease)	
	US$ million	**%**	US$ million	%	US$ million	%
North America	**994.5**	**46.0%**	1,041.0	48.9%	(46.5)	(4.5%)
Europe	**882.9**	**40.8%**	849.1	39.9%	33.8	4.0%
Asia Pacific	**248.6**	**11.5%**	197.1	9.2%	51.5	26.1%
Other Regions	**35.9**	**1.7%**	42.9	2.0%	(7.0)	(16.3%)
	2,161.9	**100.0%**	2,130.1	100.0%	31.8	1.5%

Operating Profit and Operating Profit Margin in Last 5 Years



Gross Profit/Margin

Gross profit for the financial year 2019 was US$636.4 million, a decrease of US$65.6 million or 9.3% compared to the US$702.0 million recorded in the previous financial year. Gross profit margin for the year also reduced from 33.0% to 29.4%. It was mainly attributable to the product mix and higher material prices. The direct labour costs and manufacturing overheads were also higher than the same period last year due to the higher wages in China, which offset the positive impact of further productivity gains.

Operating Profit/Margin

Operating profit for the year ended 31 March 2019 was US$193.2 million, a decrease of US$38.1 million or 16.5% compared with the previous financial year. Operating profit margin also reduced from 10.9% to 8.9%. The reduction in operating profit and operating profit margin was primarily due to the decrease in gross profit and gross profit margin, which offset the decrease in total operating expenses. Operating profit for the financial year 2019 also included the gain on disposal of tangible assets.

Total operating expenses were US$449.1 million, a decrease of 5.4% compared with the last financial year. Total operating expenses as a percentage of Group revenue also dropped from 22.3% to 20.8%.

Selling and distribution costs decreased from US$318.9 million to US$294.0 million compared with the same period last year. It was mainly attributable to the reduced spending on advertising and promotional activities and the reduction of distribution costs. As a percentage of Group revenue, selling and distribution costs also decreased from 15.0% to 13.6%.

Administrative and other operating expenses decreased from US$78.4 million to US$77.9 million compared with the same period last year. It was mainly due to the decrease in employee related costs. The net exchange gain arising from the Group's global operations in the ordinary course of business was US$0.3 million, as compared with an exchange loss of US$0.1 million in the last financial year. Administrative and other operating expenses as a percentage of Group revenue decreased from 3.7% to 3.6%.

During the financial year 2019, the research and development expenses were US$77.2 million, a decrease of 0.5% compared with the previous financial year. Research and development expenses as a percentage of Group revenue was 3.6%, same as the previous financial year.

Profit Attributable to Shareholders and Earnings per Share

Profit attributable to shareholders of the Company for the year ended 31 March 2019 was US$171.3 million, a decrease of US$35.0 million or 17.0% as compared to the last financial year. Net profit margin also decreased from 9.7% to 7.9%.

Taxation charges decreased from US$24.7 million in the last financial year to US$21.0 million in the financial year 2019. The effective tax rate increased from 10.7% to 10.9%.

Basic earnings per share for the year ended 31 March 2019 were US68.2 cents as compared to US82.1 cents in the previous financial year.

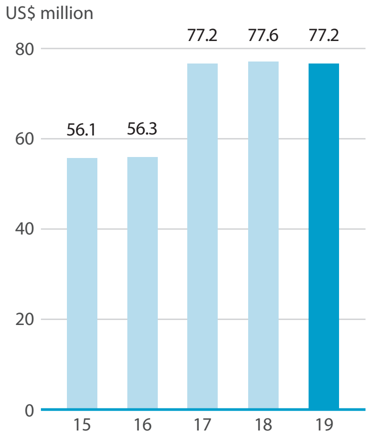
Dividends

During the financial year 2019, the Group declared and paid an interim dividend of US17.0 cents per share, which aggregated to US$42.8 million. The directors of the Company (the "Directors") have proposed a Final Dividend of US50.0 cents per share, which is estimated to be US$125.8 million.

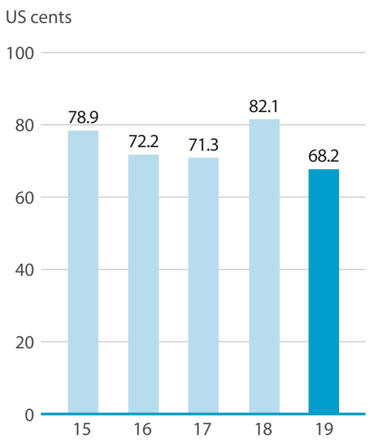
	2019 US cents	2018 US cents
Dividend per share		
Interim	**17.0**	17.0
Final*	**50.0**	63.0
Total	**67.0**	80.0

* Final dividend proposed after the end of the reporting period

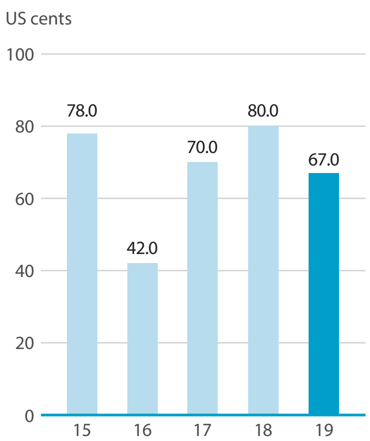
Group R&D Expenditure in Last 5 Years



Basic Earnings Per Share in Last 5 Years



Dividend Per Share in Last 5 Years



Liquidity and Financial Resources

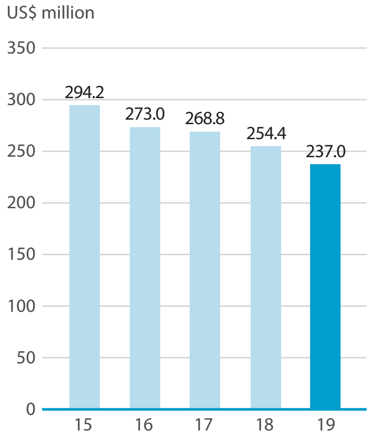
Shareholders' funds as at 31 March 2019 were US$607.0 million, a decrease of 6.1% from US$646.6 million in the last financial year. Shareholders' funds per share decreased by 6.2% from US$2.57 to US$2.41.

The Group had no borrowings as at 31 March 2019 and 31 March 2018.

The Group's financial resources remain strong. As at 31 March 2019, the Group had net cash of US$237.0 million, a decrease of 6.8% as compared to US$254.4 million as of 31 March 2018. The reduction was mainly attributable to the payment for acquisition of VTech Communications (Malaysia) Sdn. Bhd. (formerly known as Pioneer DJ Malaysia Sdn. Bhd.) ("VTech Malaysia"), higher dividend payment as compared with the previous financial year and the unfavourable foreign currency exchange movements on the Group's net assets as a result of the depreciation in foreign currencies against United States Dollar during the year.

Deposits and Cash in Last 5 Years

(As at 31 March)



Analysis of Cash Flow from Operations

	2019 US$ million	2018 US$ million	Change US$ million
Operating profit	**193.2**	231.3	(38.1)
Depreciation and amortisation	**38.0**	36.1	1.9
EBITDA	**231.2**	267.4	(36.2)
(Gain) /loss on disposal of tangible assets and non-current asset held for sale	**(5.9)**	0.5	(6.4)
Gain on disposal of an investment	**–**	(4.2)	4.2
Share-based payment expenses	**4.6**	7.1	(2.5)
Working capital change	**43.5**	(69.2)	112.7
Cash generated from operations	**273.4**	201.6	71.8

The Group's cash generated from operations for the year ended 31 March 2019 was US$273.4 million, as compared to US$201.6 million in the previous financial year. The increase was mainly attributable to the receipt of insurance claim receivable arising from the bankruptcy protection filing of Toys"R"Us in US and Canada during the previous financial year and the lower working capital investment compared with the previous financial year, which offset the decrease in EBITDA in the financial year 2019.

Working Capital Change

	Balance as at 31 March 2018 US$ million	Acquisition of VTech Malaysia US$ million	Hedging and others US$ million	Working capital change per cash flow US$ million	**Balance as at 31 March 2019 US$ million**
Stocks	349.9	2.6	–	17.4	**369.9**
Trade debtors	264.9	–	–	(1.9)	**263.0**
Other debtors, deposits and prepayments	83.1	0.2	1.8	(29.0)	**56.1**
Net assets on defined benefit scheme	2.7	–	0.1	(0.2)	**2.6**
Trade creditors	(209.4)	–	–	(35.3)	**(244.7)**
Other creditors and accruals	(207.3)	(2.4)	8.5	2.0	**(199.2)**
Provisions for defective goods returns and other liabilities	(28.4)	–	–	3.5	**(24.9)**
Total working capital	**255.5**	**0.4**	**10.4**	**(43.5)**	**222.8**

Stocks as of 31 March 2019 were US$369.9 million, increased from US$349.9 million as of 31 March 2018. The turnover days decreased from 102 days to 100 days. The higher stock level was largely due to the increase in in-house production of Snom products and increased demand for the Group's product in the first quarter of the financial year 2020. 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 2019 and 2018 All figures are in US$ million unless stated otherwise	2019	2018
Stocks	**369.9**	349.9
Average stocks as a percentage of Group revenue	**16.6%**	15.8%
Turnover days	**100 days**	102 days

Trade debtors as of 31 March 2019 were US$263.0 million, decreased from US$264.9 million as of 31 March 2018. Debtor turnover days was 65 days, same as 31 March 2018. The overdue balances greater than 30 days accounted for 2.1% of the gross trade debtors as of 31 March 2019.

As at 31 March 2019 and 2018 All figures are in US$ million unless stated otherwise	2019	2018
Trade debtors	**263.0**	264.9
Average trade debtors as a percentage of Group revenue	**12.2%**	12.7%
Turnover days	**65 days**	65 days

Other debtors, deposits and prepayments as of 31 March 2019 were US$56.1 million, decreased from US$83.1 million as of 31 March 2018. It was mainly attributable to the receipt of insurance claim receivable arising from the bankruptcy protection filing of Toys"R"Us in US and Canada during the previous financial year.

Trade creditors as of 31 March 2019 were US$244.7 million, as compared to US$209.4 million as of 31 March 2018. Creditor turnover days also increased from 91 days to 94 days.

As at 31 March 2019 and 2018 All figures are in US$ million unless stated otherwise	2019	2018
Trade creditors	**244.7**	209.4
Turnover days	**94 days**	91 days

Other creditors and accruals as of 31 March 2019 were US$199.2 million, decreased from US$207.3 million as of 31 March 2018, which was mainly due to the fair value change on forward foreign exchange contracts in the financial year 2019.

Provisions for defective goods returns and other liabilities as of 31 March 2019 were US$24.9 million, as compared to US$28.4 million as of 31 March 2018.

Net assets on defined benefit scheme as of 31 March 2019 were US$2.6 million, as compared to US$2.7 million as of 31 March 2018. The decrease was mainly due to the re-measurement of net assets on defined benefit scheme.

Treasury Policies

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

Capital Expenditure

For the year ended 31 March 2019, the Group invested US$37.3 million in the purchase of tangible assets including machinery and equipment, leasehold improvements, office equipment, as well as the improvement of manufacturing working environment. All of these capital expenditures were financed from internal resources.

Capital Commitments and Contingencies

In the financial year 2020, the Group will incur capital expenditure of US$39.8 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

46.0%

US$994.5 million

▼ **4.5%** year-on-year

Europe

40.8%

US$882.9 million

▲ **4.0%** year-on-year

Asia Pacific

11.5%

US$248.6 million

▲ **26.1%** year-on-year

Other Regions*

1.7%

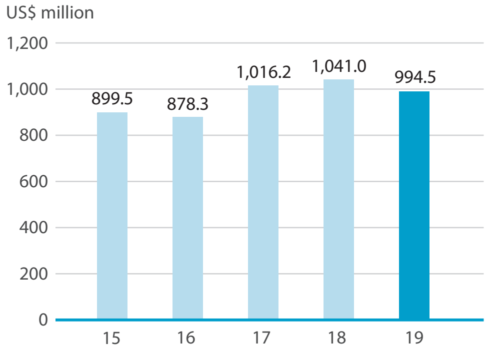
US$35.9 million

▼ **16.3%** year-on-year

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

North America

Revenue in North America in Last 5 Years



Group revenue in North America decreased by 4.5% to US$994.5 million in the financial year 2019, as higher ELPs revenue was offset by lower revenues of TEL products and CMS. North America was VTech's largest market, accounting for 46.0% of Group revenue.

ELPs revenue in North America rose by 4.0% to US$476.6 million, with particularly strong growth in Canada. This performance was achieved despite the closure of Toys"R"Us in the US, as some of the Group's existing customers expanded their shelf space and assortment of toys to capture the business previously conducted by the retailer. The Group also increased sales to some second-tier retailers. Additional momentum came from the launch of new VTech and LeapFrog branded products, which were well-received by the market and enabled the Group to gain further market share. As a result, VTech strengthened its position as the number one manufacturer of electronic learning toys from infancy through toddler and preschool in the US[3].

Standalone products posted growth, driven by higher sales for both the LeapFrog and VTech brands. LeapFrog standalone products saw strong growth, as the Group pursued a strategy to expand the standalone toy business by launching more new products. Among the new items launched, Learning Friends 100 Words Book™, Storytime Buddy™ and Go-with-Me ABC Backpack™ sold especially well. Growth of VTech standalone products was led by higher sales of preschool products such as the PJ Masks Learning Watch™ range, Kidizoom Camera and the Kidi line. These successes offset the decline in the Go! Go! Smart family of products.

Sales of platform products decreased. VTech platform products registered a sales increase, driven by strong sell-through of Kidizoom Smartwatch DX2 and KidiBuzz. LeapFrog reading systems also saw higher sales, led by the good performance of the newly launched LeapStart 3D. These gains, however, were insufficient to offset lower sales of children's educational tablets. Subscriptions to the LeapFrog Academy™ continued to grow steadily.

During the financial year 2019, VTech was given two prestigious awards by its major customers. Target named VTech "Vendor of the Year 2018", while Walmart, the Group's largest customer, honoured VTech with its "Toy Supplier of the Year" award. Both accolades are given in recognition of successful partnerships between the retailers and their toy suppliers. Among individual products, Kidizoom Smartwatch DX assortment was the top selling toy of 2018 in the youth electronics category according to the NPD Group, Retail Tracking Service (NPD). In addition, LeapStart 3D and the Learning Friends 100 Words Book were selected as finalists for the Toy Association's 2019 "Toy of the Year (TOTY) Awards" in the tech and infant/toddler categories respectively.

TEL products revenue in North America decreased by 19.4% to US$263.4 million, with lower sales of residential phones, commercial phones and other telecommunication products. Residential phones were again affected by the continuing contraction of the fixed-line telephone market. The Group also faced keen competition and a trend among retailers to consolidate their suppliers, leading to a loss of shelf space in club and consumer electronics channels. Despite this, VTech maintained its leadership position in the US residential phones market[4].

Commercial phones and other telecommunication products posted sales declines, as higher sales of headsets and hotel phones were insufficient to offset lower sales of VoIP phones, baby monitors and wireless monitoring systems. Headsets benefited from the launch and strong sell-through of the world's first 100% voice-controlled headsets by a customer, while hotel phones maintained their growth as the Group won more new projects. Sales of VoIP phones decreased mainly due to a product delay, while baby monitors experienced an overall sales decline as a customer reduced orders. Nonetheless, in the calendar year 2018, the VTech branded baby monitors continued to grow and the Group is the number one baby monitor brand by dollar sales in the US[5]. Wireless monitoring systems were affected by lower sales of Wi-Fi IP cameras.

CMS revenue in North America declined by 0.5% to US$254.5 million. Higher sales of industrial products and medical and health products were offset by lower sales of solid-state lighting and communication products. Meanwhile, sales of professional audio equipment remained stable. Industrial products benefited from increased orders for printed circuit board assembly for note-counting devices and industrial printers. Sales of medical and health products rose on more orders for hearing aids. Solid-state lighting was affected by keen competition faced by the Group's customers, while communication products declined as the customer's product line reached the end of its life cycle.

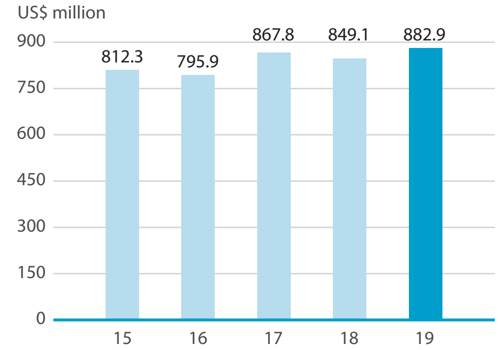
[3] *Source: NPD Group, Retail Tracking Service. Ranking based on total retail sales in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018*

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

[5] *Source: The NPD Group Inc., US Retail Tracking Service, Security & Monitoring, Camera Technology: Baby Monitor, Based on Dollar Sales, January – December 2018*

Europe

Revenue in Europe in Last 5 Years



Group revenue in Europe increased by 4.0% to US$882.9 million in the financial year 2019. Higher sales of CMS offset lower revenues of ELPs and TEL products. Europe remained VTech's second largest market, accounting for 40.8% of Group revenue.

ELPs revenue in Europe showed a 5.4% decrease to US$343.5 million. All the Group's major European markets reported lower sales. This was mainly attributable to tough market conditions in most of VTech's key European markets. In the UK, Toys"R"Us closed all its stores, while in other European markets some retailers faced financial problems. Logistics issues in continental Europe in the first half of the financial year 2019 resulted in lower shipment of products, which also contributed to the lower sales. However, the Group successfully resolved the logistics issues in the second half of the financial year, recouping most of the sales lost. In the calendar year 2018, VTech maintained its position as the number one infant and toddler toy manufacturer in France, the UK and Germany[6].

In standalone products, sales of VTech branded products were down across the board owing to the tough market conditions and the logistics issues. Sales of LeapFrog branded products remained stable, however. During the financial year 2019, LeapBuilders/BlaBla Blocks®[7], a brand new range of interactive building sets, was launched in the Group's major European markets. The launch marked VTech's expansion into the building set category.

In platform products, sales were lower for both brands. VTech saw higher sales of Kidizoom Smartwatches, augmented by the launch of the updated version of Touch and Learn Activity Desk. Continued growth in LeapFrog reading systems was supported by the launch of LeapStart 3D in the UK market. These gains, however, were insufficient to compensate for lower sales of KidiCom Max and children's educational tablets.

The Group's ELPs gained many key industry awards in the UK and continental Europe during the financial year 2019. The Kidi line of products was named "Top Selling Youth Electronics Property in Europe (EU7) in 2018" by NPD. In the UK, Myla the Magical Make-Up Unicorn™ was among the "Top Toys for Christmas" at Argos. In France, VTech ELPs won three "2018 Grand Prix du Jouet" awards from *La Revue du Jouet* magazine, while BlaBla Blocks Alphabet House was named "Toy of the Year Award 2018" in the category of 0-3 years by the Dutch Toy Association.

Revenue from TEL products in Europe decreased by 9.8% to US$119.7 million as sales of residential phones, commercial phones and other telecommunication products decreased.

Residential phones saw sales decline as the fixed line telephone market contracted further. Commercial phones and other telecommunication products had mixed results. VoIP phones continued to expand, supported by a positive reception from customers for the new series of products under the Snom brand. Meanwhile, sales of hotel phones were stable. Other telecommunication products, namely baby monitors, CAT-iq handsets and IADs saw sales declines. A major customer reducing orders led to a sales decrease in baby monitors. Lower sales of existing customers resulted in declining sales for CAT-iq handsets. Sales of IADs decreased due to a reduction in orders by a customer.

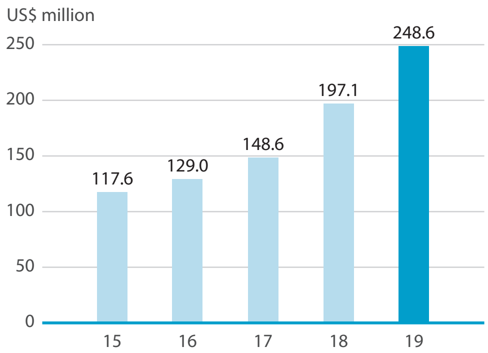
CMS revenue in Europe increased by 18.8% to US$419.7 million. Growth was seen across the board, driven by higher sales of hearables, professional audio equipment, industrial products, home appliances and communication products. The growth in hearables was strong, driven by market share gains as the Group took over orders from competitors. It was also supported by new product launches and good sell-through of products by existing customers. Professional audio equipment was boosted by increased orders, as existing customers launched new products which were well-received by the market. The shift towards smart homes continued to benefit the industrial products category. There were more orders for internet-connected smart thermostats and air-conditioning controls. The growth in the UK was buoyed by the introduction of a new generation of smart meters. In home appliances, growth was driven by increased demand for electric ovens in Italy and market share gains by a major customer in Russia. Higher sales of communication products were driven by more orders for network routers from an existing customer.

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

[7] *LeapBuilders is sold in the UK under the LeapFrog brand but in the rest of Europe is sold under the VTech brand as BlaBla Blocks*

Asia Pacific

Revenue in Asia Pacific in Last 5 Years



Group revenue in Asia Pacific increased by 26.1% to US$248.6 million in the financial year 2019. Higher sales of ELPs and CMS offset lower sales of TEL products. Asia Pacific represented 11.5% of Group revenue.

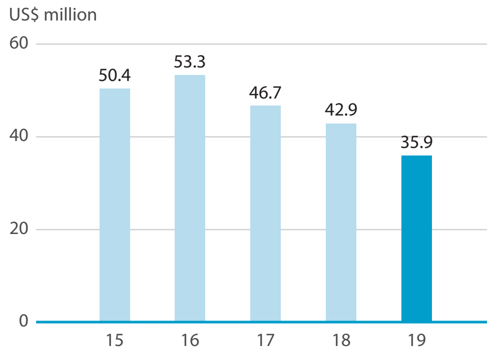
Revenue from ELPs in Asia Pacific rose by 12.9% to US$81.2 million, as growth continued in mainland China and Australia. Higher sales of LeapFrog branded products in other Asia Pacific markets also supported the overall growth. In mainland China, the increase in revenues resulted from continued sales increases for infant and toddler products, new product launches and channel expansion. Among the new items introduced, the new KidiSchool line, which was introduced to target the early education segment, was especially well received. Higher penetration among maternity-infant-child specialty retailers and e-commerce retailers also contributed to growth. In addition, the Group benefited from the continued expansion of Toys"R"Us in the country. In the financial year 2019, VTech was given a "2018 Vendor of the Year" award by Toys"R"Us in recognition of the successful collaboration between VTech and the retailer in mainland China. In Australia, sales continued to grow despite the closure of Toys"R"Us in the country. Higher sales were seen in both VTech and LeapFrog products, buoyed by broader listings and a focus on improving channel management. The VTech branded First Steps™ Baby Walker was named "Infant/Preschool Toy of the Year 2018" by the Australian Toy Association.

TEL products revenue in Asia Pacific decreased by 19.9% to US$35.4 million. Lower sales in Japan, Australia and Hong Kong offset growth in Malaysia. In Japan, sales declined owing to reduced shipment of cordless phones to a customer who faced financial problems. In Australia, the continued contraction of the fixed-line telephone market led to lower sales of cordless phones, offsetting growth in baby monitors. Hong Kong saw sales decrease on declines in demand for cordless phones and lower orders for IADs. In contrast to these markets, Malaysia experienced growth as VTech became a key supplier for cordless phones to a major local telephone company.

CMS revenue in Asia Pacific grew by 63.0% to US$132.0 million, led by higher sales of professional audio equipment, medical and health products and home appliances. This offset lower sales of communication products and hearables. Professional audio equipment was boosted by the addition of sales from the DJ equipment business, following completion of the acquisition of the manufacturing facilities in Malaysia from Pioneer Corporation in August 2018. This resulted in a full six-month sales contribution being consolidated in the second half of the financial year 2019. The growth in home appliances was a result of additional revenue generated by one new customer. Medical and health products continued to benefit from higher orders for diagnostic ultrasound systems. In contrast to this growth, sales of communication products declined on reduced orders for marine radios, while hearables were affected by keen competition in the wireless headsets market.

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 16.3% to US$35.9 million in the financial year 2019. Lower sales of TEL products and ELPs offset higher sales of CMS. Other Regions accounted for 1.7% of Group revenue.

ELPs revenue in Other Regions decreased by 7.1% to US$13.0 million, with higher sales in Latin America unable to compensate for lower sales in the Middle East and Africa.

TEL products revenue in Other Regions declined by 21.9% to US$21.7 million, with lower sales in Latin America, the Middle East and Africa.

CMS revenue in Other Regions was US$1.2 million in the financial year 2019, as compared to US$1.1 million in the previous financial year.

Electronic Learning Products

Brands

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

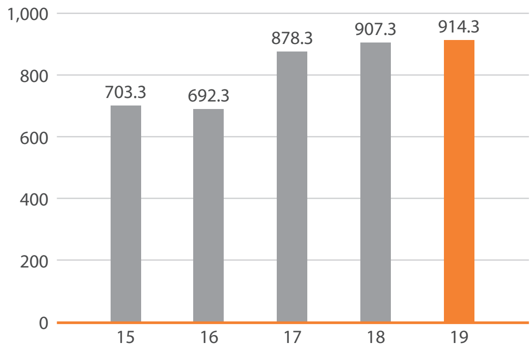
No.1
manufacturer of electronic learning toys from infancy through toddler and preschool in the US

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

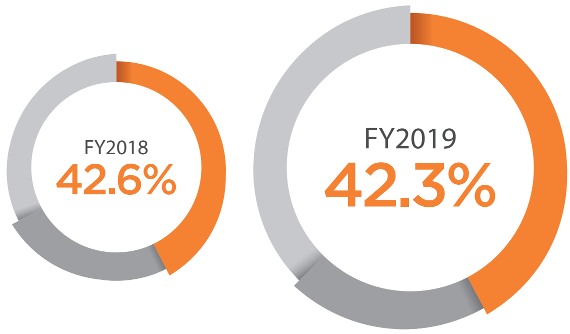
59 million
products shipped in FY2019

94 countries
selling the Group's ELPs in 28 languages

ELPs Revenue in Last 5 Years



As % of Group Revenue



ELPs Revenue by Region

All figures are in US$ unless stated otherwise

North America
476.6 million
▲ 4.0% (year-on-year)

Europe
343.5 million
▼ 5.4% (year-on-year)

Asia Pacific
81.2 million
▲ 12.9% (year-on-year)

Other Regions
13.0 million
▼ 7.1% (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 Wheels

Go! Go! Smart Animals

Go! Go! Smart Friends

Go! Go! Smart / Toot-Toot Family

Leap Builders

LeapBuilders / BlaBla Blocks

Platform Products

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

Rockit Twist
ROTATABLE LEARNING GAME SYSTEM

leap start 3D

leap start Go

KidiBuzz G2

Kidizoom SMART WATCH DX2

Explore & Write Activity Desk™
Interactive Learning System

LeapFrog epic Academy Edition

LeapFrog Academy

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

LeapFrog Academy™

Telecommunication Products

Brands | vtech® | snom | AT&T (Licensed Brand)

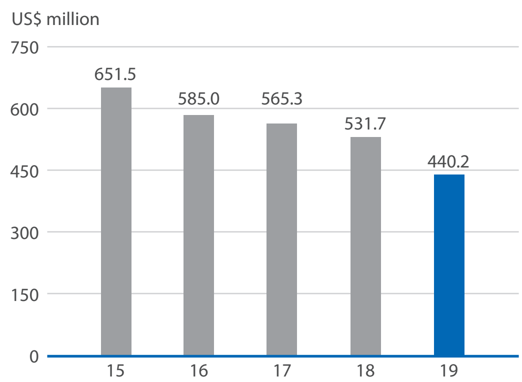
No.1
residential phones manufacturer in the US

No.1
baby monitor brand by dollar sales in the US

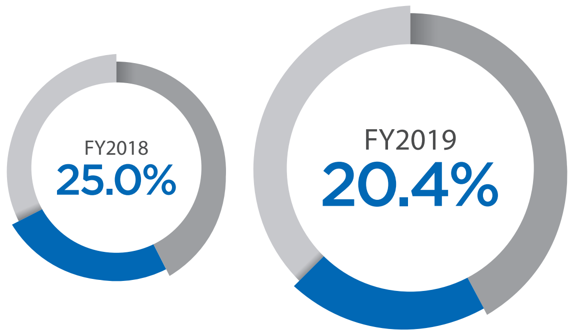
20.2 million
handsets shipped in FY2019

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	263.4 million	▼ 19.4% (year-on-year)
Europe	119.7 million	▼ 9.8% (year-on-year)
Asia Pacific	35.4 million	▼ 19.9% (year-on-year)
Other Regions	21.7 million	▼ 21.9% (year-on-year)

Residential Phones

that are a perfect blend of design and functionality

CS5129 Cordless Phone System with Caller ID/Call Waiting

CL83219 Two Handset Answering System with Smart Call Blocker

SN5147 Amplified Phone with Answering 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

SIP-DECT Mobility Solution

Colour Display SIP Phone

Other Product Categories

- SMB Phone
- Conference Phone with Wireless Microphones
- 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

Integrated Access Device

Baby Monitor

CAT-iq 2.0 Certified Handset

Other Product Categories

- Wireless Monitoring System
- Baby Soother

Contract Manufacturing Services

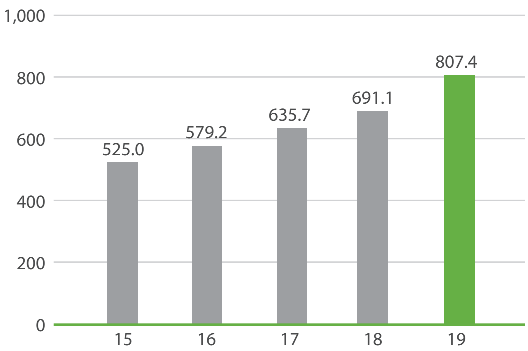
27th
among the world's top 50 EMS providers

17th
consecutive year of sales growth

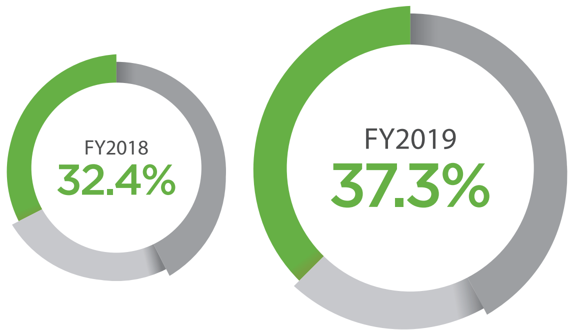
16.8%
sales growth in FY2019

Successful integration
of recently acquired manufacturing facilities in Malaysia

CMS Revenue in Last 5 Years



As % of Group Revenue



CMS Revenue by Region

All figures are in US$ unless stated otherwise

North America	254.5 million	▼ 0.5% (year-on-year)
Europe	419.7 million	▲ 18.8% (year-on-year)
Asia Pacific	132.0 million	▲ 63.0% (year-on-year)
Other Regions	1.2 million	▲ 9.1% (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

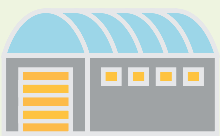
Hearables

Industrial Products

Medical & Health Products

The consistent year-on-year growth delivered by CMS business bears witness to its excellent reputation, manufacturing know-how, stable management and outstanding customer service. It also endorses the Group's strategy of targeting the professional, industrial and commercial product categories, being strongly customer focused and continually adopting state-of-the-art manufacturing technology.

Excellent Reputation



Manufacturing Know-how

Stable Management

Outstanding Customer Service

Corporate

Sustainability Efforts

VTech Holdings Limited continued to be a constituent member of the Hang Seng Corporate Sustainability Benchmark Index and the FTSE4Good Global Index. VTech has also received a rating of AA in the MSCI (Morgan Stanley Capital International) ESG Rating Assessment.

VTech's Sustainability Report 2018 received the "Sustainability Excellence Award" from the Chamber of Hong Kong Listed Companies. The Group was presented the "3+ Year Award" and "Outstanding Caring Awards (Enterprise Group)" under the "Industry Cares" recognition scheme organised by the Federation of Hong Kong Industries.

Hang Seng Corporate Sustainability Index Series Member 2018-2019

FTSE4Good

INDUSTRY CARES 工業獻愛心 3+

Community Involvement

VTech employees actively participated in charitable sports events including Oxfam Trailwalker 2018, Sowers Action Challenging 12 Hours Charity Marathon 2018, Hong Kong Streetathon 2019 and Standard Chartered Hong Kong Marathon 2019 during the financial year 2019.

VTech was the Gold Sponsor of the Hong Kong Streetathon event and received the "Highest Donation Award" in the Hong Kong Marathon. For the Sowers Action event, in addition to being a Bronze sponsor, VTech was presented with the "Brilliant Participation – Gold Award".

VTech again sponsored and competed for the "VTech Cup" at the Shatin Dragon Boat Race 2018 and the VTech team achieved first runner-up in the cup event.

In the financial year 2019, the Group contributed over 27,000 hours in volunteer activities. VTech's teams of volunteers actively participated in community services, including providing healthy meals for the elderly, storytelling with kids and donating books and toys to children in Hong Kong and remote areas of mainland China.

"Caring Company" Recognition

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

10 years+ 商界展關懷 caringcompany
Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

Award-winning Annual Report

The VTech Annual Report 2018 received the "Silver Award" in the category of Annual Reports – Print: Electronic Manufacturing in the Galaxy Awards 2018.

Telecommunication Products

No. 1 Baby Monitor Brand in the US

In the calendar year 2018, VTech was the number one baby monitor brand by dollar sales in the US[8].

Award-winning Baby Monitors

In Australia, BM4500 series baby monitors won "Gold Awards" from *Mother and Baby* and *My Child* magazines.

Australian Mother & Baby Awards 2018 Gold

Product of the Year

ErisTerminal VDP650 Cordless 4-Line Series was honoured with a "2018 Communications Solutions Product of the Year Award" and a "2018 Unified Communications TMC Labs Innovation Award" presented by Technology Marketing Corporation (TMC).

2018 Communications Solutions Product of the Year

TMC LABS 2018 Innovation Award

[8] *Source: The NPD Group Inc., US Retail Tracking Service, Security & Monitoring, Camera Technology: Baby Monitor, Based on Dollar Sales, January – December 2018*

Electronic Learning Products

Global No. 1 Supplier

In the calendar year 2018, VTech strengthened its position globally as the number one supplier of electronic learning toys from infancy through toddler and preschool[9]. In Europe, VTech was the number one infant and toddler toy manufacturer in France, the UK and Germany[10]. In the US, the Group strengthened its position as the largest manufacturer of electronic learning toys from infancy through toddler and preschool[11].

Supplier/Vendor of the Year

VTech earned a number of prestigious awards from its major customers worldwide. In the US, Target named VTech "Vendor of the Year 2018", while Walmart honoured VTech with its "Toy Supplier of the Year" award. In mainland China, Toys"R"Us recognised VTech as "2018 Vendor of the Year".

Top-selling Toys of the Year

According to NPD, Kidizoom Smartwatch DX assortment was the top selling toy of 2018 in the youth electronics category in the US, while in Europe, the Kidi line of products was named "Top Selling Youth Electronics Property in Europe (EU7) in 2018".

Other Awards

In the financial year 2019, the Group's ELPs received over 180 accolades from respected toy and parenting industry experts, toy councils and retailers around the world.

"2018 Grand Prix du Jouet" Awards

Little Love Léa découvre le pot, Go! Go! Smart Friends Pirate Ship and Myla the Magical Make-Up Unicorn won "2018 Grand Prix du Jouet" awards presented by *La Revue du Jouet* magazine in France.

Contract Manufacturing Services

A Global Top 50 EMS Provider

VTech Communications Limited was ranked 27th among the world's "Top 50 EMS Providers in 2018" in *Manufacturing Market Insider* magazine.

New Manufacturing Facilities in Malaysia

In August 2018, VTech completed the acquisition of a manufacturing facility in Malaysia from Pioneer Corporation, which included a DJ equipment business. In addition to strengthening CMS's position as a leading global manufacturer of professional audio equipment, the new facility expanded VTech's global footprint, allowing the Group to serve its customers better.

Service Excellence

VTech Communications Limited received numerous awards from customers in recognition of its outstanding services. These included a "Best CMS Award" from a customer in the field of hearables, a "Supplier Excellence Award" and "10 Years of Collaboration" award from professional audio equipment customers and a "Manufacturing Partnership Award" from an industrial products customer.

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[9] *Sources: NPD Multi-Country Database Retail Tracking Service for projected US dollar sales in the US, Canada, France, Germany, the UK and Spain in the categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018*

MarketWise Consumer Insights LLC, Global Market Share Estimates. Ranking based on total retail sales in the combined toy categories of Early Electronic Learning, Toddler Figures/Playsets & Accessories, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018

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

[11] *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, Preschool Electronic Learning, Electronic Entertainment (excluding Tablets) and Walkers for the 12 months ended December 2018*

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 2019, we followed the Global Reporting Initiative (GRI) Standards: Core option 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)[12] to define our report content.

The financial year 2019 saw both achievements and challenges for VTech. The Group's TEL products business has been facing keen competition in the telephony industry and restructuring of the organization is underway in order to turn around the business. Our ELP business was able to deliver sales growth in the financial year even though one of our major customers, Toys"R"Us, went bankrupt in the US last year. Our CMS business has completed a strategic acquisition of the manufacturing facility from Pioneer Corporation in Malaysia, which enables VTech to expand its manufacturing footprint outside mainland China. Despite the different challenges that we are confronting, VTech recognizes that our dedicated sustainability efforts in the past years have facilitated us to be more responsive to the ever-changing market environment.

With our persistent commitments in sustainability development, VTech continues to be a constituent member of the Hang Seng Corporate Sustainability Benchmark Index with score at AA- rating, and is also included in the FTSE4Good Global Index[13]. We have also achieved a rating of AA in the Morgan Stanley Capital International (MSCI) ESG Rating. In recognition of our continuous contributions to the Hong Kong community, we have received the "Sustainability Excellence Award" from the Chamber of Hong Kong Listed Companies, the "Industry Cares Company" awarded by Federation of Hong Kong Industries, and the "Caring Company" awarded by The Hong Kong Council of Social Service for the eleventh consecutive year.

At VTech, we have 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 topics 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 involvement.

VTech's Sustainability Report 2019 is our 6th annual Sustainability Report which has not only identified sustainability targets for the financial year 2020 (FY2020), but also highlighted our performance progress and achievements for FY2019, with actions and programmes to be implemented towards our goals in FY2020.

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 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 2019 are available on www.vtech.com/en/sustainability/.

[12] *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*
[13] *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 Involvement

- 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 topics identified by our stakeholders during the engagement process. A topic is classified as material when it substantially affects our long-term commercial or operational viability, with material impacts on economic, environmental or social topics. This matrix combines VTech's approach to identifying and assessing the material topics of our stakeholders, and our own materiality scoring methodology by following the principles outlined in the GRI Standards.

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. We have launched the new Amplified Big-Button Phone featuring with smart call blocker, extra-loud ringers and high bright visual ring indicators which are compatible with other accessories, including audio doorbell, wearable home SOS pendant, extension ringer and more. This new phone provides a safety and convenient way for user to stay connected and independent at home. 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. These included LeapBuilders®, an interative building sets designed for children to learn about first numbers, animals and food and Myla the Magical Unicorn™, featuring a magic make up brush and palette and a microphone for a fun sing-along session. 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. We have launched Snom D717 VoIP phone which has a sensor to automatically adjust the backlight intensity depending on the ambient lighting. VTech CMS also produced a smart temperature control device which enables users to connect and control their home heating units with their mobile phone for energy saving. We continue to have Digital Enhanced Cordless Telecommunication cordless phones with Blue Angel eco-label and the level VI power adaptor with Energy Star eco-label.

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

Our products are designed to minimise the environmental impact throughout the whole product life cycle from cradle to grave. In FY2017, we successfully launched our first TEL product that uses waterborne paint, which could greatly reduce the emission of volatile organic compounds (VOCs) during the manufacturing process compared with the traditional solvent-based paint, and thus mitigate the negative impact on the environment. In FY2018 and FY2019, we have further extended the application of waterborne paint in most of our TEL products.

We have also adopted plastic overmolding technology. It is a multiple injection molding process where multiple-coloured plastic components are being produced in a multiple molding cycle. With this overmolding solution, the paint spraying process can be minimised and hence VOCs emission is reduced. We also continue to use the most eco-friendly materials in our products and minimise the usage of resources and materials in the manufacturing process.

Plastic Overmolding Technology

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" by the Hong Kong Productivity Council and Guangdong Provincial Government in recognition of our positive contribution to improving the air quality and local environment. 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 mainland China. Moreover, our VOCs purification system has been recognised as "Demonstration Project" under the Cleaner Production Partnership Programme of Hong Kong Productivity Council. 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. In FY2019, we have taken our first step on switching to renewable energy by installing solar panels on rooftop of a dormitory in our manufacturing site. Through our continuous implementation of high performance production chain and green manufacturing programmes, we have reduced CO_2 emission per production output in our assembly factories and plastic plants by 0.3% and 7.1% respectively compared with FY2018, with notable decrease of 23.6% and 26.2% compared with FY2014.

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

We have installed wastewater filtering systems in order to purify the wastewater in our manufacturing facilities. To increase the use of wastewater for the spray painting process, we have upgraded the wastewater treatment system in plastic injection plant so that the storage capacity of treated wastewater increases, reducing the use of fresh water.

We also continue to implement various water saving campaigns at our dormitories and manufacturing sites to reduce water consumption. With our extensive effort in carrying out different water saving programmes, we have managed to reduce the total water consumption and total water consumption per production output by 4.7% and 7.4% respectively compared with FY2019, with substantial reduction of 37.7% and 46.3% compared with FY2014.

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.

Clockwise from top left: Automotive Assembly Line – Modular Automation; Smart Warehouse; Robotic Arms; Ultrasonic String Cutting Machine; Automatic Optical Inspection

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. While we are in the process of certificate application for our high precision metal tooling and parts factory, all our existing VTech assembly and plastic factories are certified with the Occupational Health and Safety Management Systems (OHSAS 18001 or ISO45001). Our TEL and CMS assembly factories are also certified with Social Accountability (SA 8000) certification and ELPs with ICTI Ethical Toy Program compliance certification. These external verified certifications demonstrate our compliance with local laws and high quality working conditions.

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

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

VTech encourages our employees to develop and advance their careers in our Company. We also actively promote continuous learning initiatives and develop a wide range of training programmes for our employees. With our effort in promoting continuous learning, the average training hours per employee increased by 30.4% compared with the previous financial year.

We are also committed to respecting the labour and human rights of all our staff with clearly defined human resources management policies. We have procedures in place to ensure that our policies are properly implemented throughout the Company. Any issues or enquiries raised by our employees through different communication channels will be handled and investigated by the Company with care and in a confidential manner.

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

The majority of employees in our mainland China manufacturing facilities are from different provinces of the country. We recognise that to make them feel at home, and have a sense of belonging while they are living in our dormitories are very important for our people. We have continuously upgraded the dormitories at our manufacturing sites in FY2019.

Living Environment and Staff Activities

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 Corporate Social Responsibility 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 continuous dedication of sustainability resources and efforts, we have reduced CO_2 emission per production output in our assembly factories and plastic plants by 0.3% and 7.1% respectively compared with FY2019, with notable decrease of 23.6% and 26.2% compared with FY2014.

Community Involvement

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 FY2019, we had recruited over 2,800 volunteers and contributed over 27,000 volunteering hours for the communities, which has increased by 4.1% compared with FY2018.

VTech has been presented with "Heart to Heart Company" by the Hong Kong Federation of Youth Groups and we are the proud recipient of the "Outstanding Caring Award" presented by Federation of Hong Kong Industries in FY2019. VTech has also been awarded the "Caring Company" by The Hong Kong Council of Social Service for the eleventh consecutive year and the "Industry Cares Company" by Federation of Hong Kong Industries in recognition of our continuous contribution to the Hong Kong community. These included fund raising for the blind, organising blood donation events at our office, and providing healthy meals for the elderly. In FY2019, over 10,000 pieces of toys were donated to four charitable organisations namely YWCA, Western District Alliance Church, Caritas Hong Kong and Hong Kong Society for the Protection of Children. The voluntary team from our mainland China manufacturing sites has also arranged regular school visits to the remote areas of mainland China, and donated books and electronic learning products to the children. Our Canada volunteer team also participated in the fund raising campaigns run by Movember Foundation for the fifth year.

VTech also sponsors our staff to take part in different sport activities organised by the local charities. In FY2019, our employees participated in the Oxfam Trailwalker 2018, Sowers Action Challenging 12 Hours 2018, Hong Kong Streetathon 2019 and Standard Chartered Hong Kong Marathon 2019. VTech was the Bronze Sponsor for Sowers Action Challenging 12 Hours Charity Marathon 2018 and presented with the Brilliant Participation – Gold Award. Our Sowers Action Teams won the 1st runner-up for both the category 51 km and 42 km Corporate Team. The teams also won the 1st and 2nd runner-up in the category 26 km. We were the champion in 8 km corporate cup and 1st runner-up in half marathon corporate cup in the Hong Kong Streetathon 2019. Additionally, we were the "Gold Sponsor" in the Hong Kong Streetathon 2019 and were awarded the "Highest Donation Award" for Standard Chartered Hong Kong Marathon 2019.

VTech Dragon Boat Team has participated in various Dragon Boat races for over one decade. As always, our dedicated team members are devoted to intensive and comprehensive training to improve their physical fitness and skill levels. In FY2019, VTech continued to sponsor the "VTech Cup" in the Shatin Dragon Boat Race for the second consecutive year and our team won the first runner-up for "VTech Cup".

We also collaborate with local charities to support various charitable activities around the world. In FY2019, we have made charitable and other donations of over US$264,000.

VTech recognises that attracting the best talents is important for the sustainable growth of the Company. We regularly recruit interns from local universities and organise various workshops with schools for the young people. To nourish an innovative environment and stay ahead of the latest trends and developments in the industry, we also support various technology forums and participate in a number of trade associations around the world. In FY2019, we continue to organise product design competition with the Technological and Higher Education Institute of Hong Kong and provide mentoring programme for the students. We have also offered scholarship awards for The Hong Kong Polytechnic University, City University of Hong Kong and the Hong Kong University of Science and Technology.

VTech is a keen supporter for developing a healthy and green community. We not only dedicate our efforts to minimising the environmental impacts from our operations, but also participate in different community events to develop and promote a healthy and green lifestyle for our people and the community. Our volunteers continued to participate in the local tree planting programmes. We have also organised Green Day at our Hong Kong Head Office, and arranged health talks for our employees.

Clockwise from top left: VTech Book Corner; Christmas Party with the Elderly; Green Community; Toy Donation for Mainland China Remote Area; Tree Planting; Hot Meals Service to the Elderly

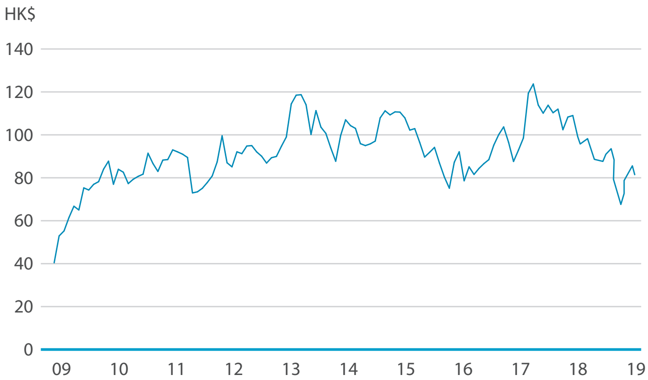
Investor Relations

VTech aims to build long-term relationships with shareholders and the investment community. We maintain an effective engagement with investors through meetings, participation in investment conferences as well as roadshows. This is to ensure they have a thorough understanding of the Group's business, and to provide them with updates on our operations.

Shareholder Value

We are committed to creating sustainable value for our shareholders, as demonstrated over many years through a combination of share price performance, dividend payments and recognition in a number of important indexes.

VTech Share Price in Last 10 Years (1 April 2009 – 31 March 2019)



Source: Bloomberg L.P.

Share Price Performance

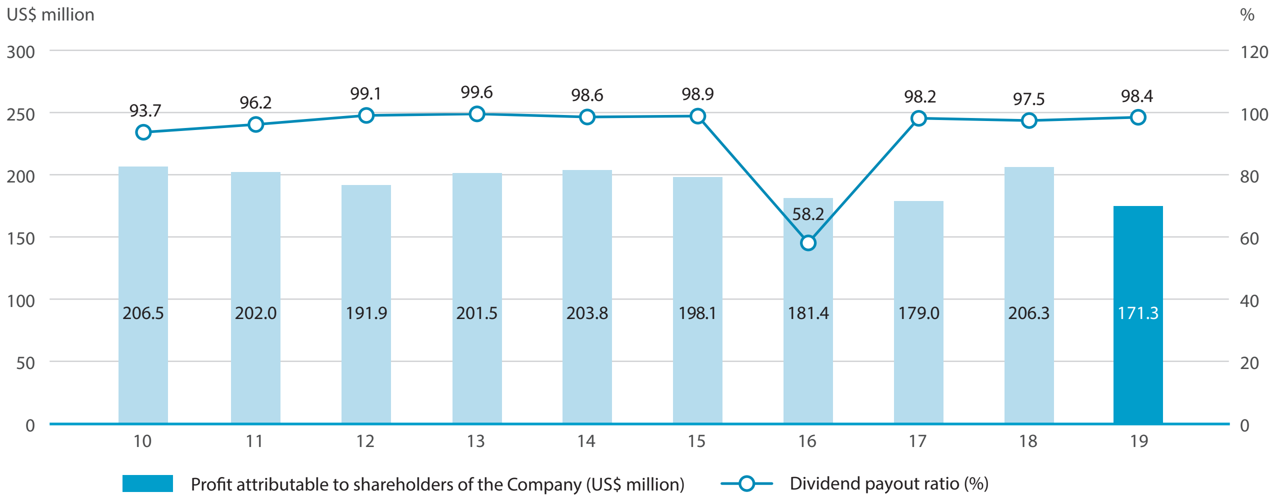
For the year ended 31 March	2019	2018
Highest closing price	**HK$99.35** (11 April 2018)	HK$126.60 (20 June 2017)
Lowest closing price	**HK$63.55** (3 January 2019)	HK$94.55 (3 April 2017)

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 2019 amounted to 98.4% of the profit attributable to shareholders of the Company, against 97.5% in the financial year 2018. Details of the Group's dividend policy are set out in the corporate governance report on page 39.

Over the past decade, VTech has delivered sustainable returns to shareholders.

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



Index Recognition

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

Corporate Governance

We believe that high standards of corporate governance are required to execute corporate strategy well and generate increasing value for shareholders over the long term. Details of our progress in this respect can be found in the corporate governance report on pages 33 to 39.

Investor Communications

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

We make every effort to maintain an open dialogue with shareholders and potential investors, listening carefully to all views expressed and keeping stakeholders fully informed of material developments. The channels we use to communicate with stakeholders include:

- Analyst briefings on the Group's interim and annual results, including a webcast and presentation materials posted on the corporate website
- Investor conferences and post-results roadshows
- Meetings and conference calls
- Visits to the Group's manufacturing facilities 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

Listing and Stock Code

The Stock Exchange of Hong Kong Limited: 303

Share Information

Board lot: 100 shares
Issued shares as at 31 March 2019: 251,572,133 shares

Dividend

Dividend per ordinary share for the year ended 31 March 2019
– Interim dividend: US17.0 cents per share
– Final dividend: US50.0 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 8555
Fax: (852) 2865 0990
Email: hkinfo@computershare.com.hk

Investor Relations Contact and Website

Corporate Marketing Department
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Fax: (852) 2680 1788

Email: investor_relations@vtech.com

www.vtech.com/en/investors

Financial Calendar

2019	
9 – 12 July 2019 (both days inclusive)	Closure of Register of Members – Annual General Meeting
12 July 2019	2019 Annual General Meeting
18 July 2019	Closure of Register of Members – Payment of Final Dividend
29 July 2019	Payment of Final Dividend
November 2019	2019/2020 Interim Results Announcement

2020	
May 2020	FY2020 Annual Results Announcement

Corporate Governance Practices

VTech Holdings Limited is incorporated in Bermuda and has its shares listed on Stock Exchange. The corporate governance rules applicable to the Company are the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Throughout the year ended 31 March 2019, the Company has complied with all the code provisions of the Code and to a large extent the recommended best practices in the Code, except for the deviation from code provision A.2.1 of the Code as described below.

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

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

Board of Directors

Board Composition

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

The Board composition and Board skills and experience during the financial year are set out below:

(i) Board Composition

Designation

3 Executive Directors	**4** Independent Non-executive Directors

Gender

7 Male

Ethnicity

7 Chinese

Age Group

2 < 65	**5** > 65

Length of service (years)

3 1-10	**4** More than 10

(ii) Board Skills and Experience

	Industry and manufacturing	Mainland China	Global Business	Technology	Logistics/ Supply Chain	Accounting Professional/ Legal and Compliance
Executive Directors						
Allan WONG Chi Yun *(Chairman)*	✔	✔	✔	✔	✔	
PANG King Fai	✔	✔	✔	✔	✔	
Andy LEUNG Hon Kwong	✔	✔	✔	✔	✔	
Independent Non-executive Directors						
William FUNG Kwok Lun	✔	✔	✔	✔	✔	
KO Ping Keung	✔	✔	✔	✔		
Patrick WANG Shui Chung	✔	✔	✔	✔	✔	
WONG Kai Man	✔	✔	✔	✔		✔
Total (in number)	**7**	**7**	**7**	**7**	**5**	**1**
Total (in percentage)	**100%**	**100%**	**100%**	**100%**	**71%**	**14%**

In addition, the Directors disclose to the Company the number and nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved on a biannual basis. Directors are also reminded to notify the Company in a timely manner any changes of such information. Their names and brief biographies are set out on page 40 of this Annual Report.

Board of Directors (Continued)

Appointment and Re-election of Directors

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

Independence of Independent Non-executive Directors

The Board has received from each independent non-executive Director a written annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board considers that the four independent non-executive Directors, being majority of the Board, are independent in character and judgement and they also meet the independence criteria set out in Rule 3.13 of the Listing Rules. In view of the amendments to the Listing Rules which came into effect from 1 January 2019, the written annual confirmation of independence also covered the immediate family members (as defined under the Listing Rules) in the assessment of the independence of each independent non-executive Director.

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

Any further 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. Reasons will be given in the circular to shareholders to explain why the Board believes those independent non-executive Directors are still independent and should be re-elected. If the independent non-executive Director will be holding his seventh (or more) listed company directorship, the Board will explain in the circular why he will still be able to devote sufficient time to the Board.

Roles and Responsibilities of the Board

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

- deliberation of business plans, risk management, internal control;
- preliminary announcements of interim and final results, and Interim and Annual Reports;
- dividend policy;
- annual budgets;
- major corporate activities such as material acquisitions and disposals, and connected transactions; and
- Directors' appointment, re-election and recommendations.

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

Board, Board Committees and Shareholders' Meetings

Four Board meetings at approximately quarterly intervals are scheduled with other meetings held as required. Dates of regular Board meetings and Board Committees meetings are scheduled in the prior year to provide sufficient notice to give all Directors an opportunity to attend. Minutes of the meetings of the Board and Board Committees record in sufficient detail the matters considered by the Board and the Board Committees, the decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of the minutes of the Board meetings and the Board Committees are sent to all Directors or respective Board Committees members for their comment and records within a reasonable period after the meetings are held. Minutes of Board meetings and Board Committees are kept by the Company Secretary of the Company (the "Company Secretary"). All Directors have access to the advice and services of the Company Secretary and independent professional advice may be sought by the Directors if required.

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
KO Ping Keung	4/4	2/2	1/1	1/1	–	1/1
Patrick WANG Shui Chung	3/4	1/2	1/1	1/1	–	1/1
WONG Kai Man	4/4	2/2	1/1	1/1	2/2	1/1

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

Board Evaluation

The Board recognises the importance and benefits of conducting regular evaluation of its performance. A board evaluation for the financial year 2018/2019 was conducted in the form of a questionnaire to all Directors individually with the aim of improving the effectiveness of Board and the Board Committees. The areas covered included composition, effectiveness, process of the Board and the Committees.

The evaluation results indicated that the Directors broadly agreed that the Board operates satisfactorily, and they were satisfied, in general, with the composition and effectiveness of each Board Committees. The result of the evaluation was circulated to the Board for review and discussion at the Board meeting.

The Board will continue to conduct the evaluation of the performance of the Board and the Board Committees every two years.

Board Committees

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

Audit Committee

The Audit Committee is chaired by Mr. WONG Kai Man with Dr. William FUNG Kwok Lun, Professor KO Ping Keung and Dr. Patrick WANG Shui Chung 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 not limited to, reviewing the following:

- audited Group's consolidated financial statements and reports for the year ended 31 March 2018;
- report from the external auditor for the year ended 31 March 2018;
- corporate governance report setting out the corporate governance practices in the 2018 Annual Report in compliance with the Code;
- unaudited Group Interim Financial Report for the six months ended 30 September 2018 in the 2018/2019 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 2018 in the 2018/2019 Interim Report;
- corporate governance section setting out the corporate governance practices in the 2018/2019 Interim Report in compliance with the Code;
- accounting principles and practices adopted by the Group;
- appointment of the external auditor and its remuneration;
- fee level and nature of non-audit work performed by the external auditor;
- significant findings by the Internal Audit Department and recommendations for corrective actions;
- reports made under the Whistleblowing Policy;
- respective audit plans of the internal and external auditors;
- training and continuous professional development of the Directors and senior management;
- 2018 Sustainability Report; and
- adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, financial reporting and internal audit functions.

On the date of this Annual Report, the Audit Committee met to review the audited Group's consolidated financial statements and reports for the year ended 31 March 2019 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 2019 have been reviewed with no disagreement by the Audit Committee.

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

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

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

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 Professor KO Ping Keung, 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, identifying and nominating candidates for appointment to the Board such that it has the relevant blend of skills, knowledge and professional experience, assessing the independence of the independent non-executive Directors, assessing the ability of a proposed independent non-executive Director to devote sufficient time to the Board according to the requirements of Listing Rules, making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, and reviewing the Nomination Policy and the Board Diversity Policy periodically.

Nomination Policy

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

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

- Board Diversity Policy;
- accomplishment and experience appropriate to the requirements of the Company's business;
- commitment in respect of sufficient time, interest and attention to the Company's business;

Board Committees (Continued)

Nomination Committee (Continued)

Nomination Policy (Continued)

– compliance with the criteria of independence under the Listing Rules for the appointment of independent non-executive Director; and

– any other relevant factors as may be considered by the Nomination Committee from time to time.

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

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

Board Diversity Policy

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

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

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

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

– structure, size and diversity of the Board;

– individuals suitably qualified for appointment as Director;

– independence of the independent non-executive Directors;

– re-election of retiring Directors at the forthcoming 2019 annual general meeting of the Company to be held on 12 July 2019 (the "2019 AGM"), including the assessment on the ability to devote sufficient time to the Board and the length of service of the proposed independent non-executive Director according to the requirements of Listing Rules;

– Board Diversity Policy;

– Nomination Policy; and

– revised Nomination Committee Charter.

Remuneration Committee

The Remuneration Committee is chaired by Dr. Patrick WANG Shui Chung with Dr. William FUNG Kwok Lun, Professor KO Ping Keung 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 reviewed and approved the shares to be awarded under the share purchase scheme 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 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, recall, quality and safety;

– sales and receivable management, and marketing and promotion;

– procurement and supplier management;

– compliance with patents and intellectual property rights requirements;

– cybersecurity and information technology risks;

– physical security and risk of fire;

– human resources, employee compensation and safety;

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

– business interruption; and

– US tariffs against China export.

Board Committees (Continued)

Risk Management and Sustainability Committee

(Continued)

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

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 2019 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 by qualified professionals on the Listing Rules update arranged by the Company. Materials on the subject of corporate governance and e-learning provided by the Stock Exchange are also provided/notified to the Directors from time to time. In addition, the Directors attended other external seminars or briefings and read relevant materials on regulatory updates.

All Directors have provided to the Company their records of training which they have received during the financial year. The records are maintained by the Company Secretary for annual review by the Audit Committee.

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	✔	✔
KO Ping Keung	✔	✔
Patrick WANG Shui Chung	✔	✔
WONG Kai Man	✔	✔

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

External Auditor

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

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

	2019 US$ million	2018 US$ million
Audit services	**0.9**	0.8
Audit related services	**0.1**	0.1
Tax services	**0.6**	0.7
Other advisory services	**–**	0.1

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 2019 to give a true and fair view of the financial position of the Group as at that date and of its financial performance for the year then ended. In doing so, the Directors have adopted the appropriate accounting policies, applied them consistently in accordance with the International Financial Reporting Standards and made judgements and estimates that are prudent and reasonable in preparing the consolidated financial statements on the going concern basis.

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

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

The statement by the external auditor of the Company regarding their responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 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 and has duly complied with the training requirement under Rule 3.29 of the Listing Rules.

Internal Control

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

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 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. No incident of fraud or misconduct was considered to have material effect on the Group's financial statements or overall operations.

Risk Register

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

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules regarding securities transactions by Directors and senior management. After having made specific enquiries, all Directors confirmed that they have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 March 2019.

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 to propose resolution at annual general meeting

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

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

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

Procedure for shareholders to send enquiries to the Board

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

Changes in Constitutional Documents

There is no change in the Company's constitutional documents during the financial year ended 31 March 2019.

Shareholders Communication Policy

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

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

Financial Key Dates

The financial calendar highlighting important dates for shareholders in 2019 is set out in the Investor Relations section of this Annual Report and is also available on the Company's website.

Dividend Policy

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

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

– the actual and expected financial performance of the Group;

– global economic conditions and other factors that may have an impact on the business or financial performance of the Group;

– the Group's business strategies, current and future operations, liquidity position and capital requirements, including future cash commitments and investment needs to sustain the long-term growth aspect of the business;

– any restrictions on payment of dividends in the Company's Bye-laws or may be imposed by the Group's lenders; and

– any other factors that the Board deems appropriate.

Biographical Details of Directors

Allan WONG Chi Yun, GBS, MBE, JP, aged 68, 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 63, 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 60, Executive Director and Chief Executive Officer of Contract Manufacturing Services, holds a Bachelor of Science degree in Electrical and Electronic Engineering from the University of Newcastle upon Tyne in the United Kingdom and an MBA degree from Oklahoma City University in the United States. He is also responsible for overseeing the China Services Department of the Group. Mr. LEUNG joined the Group in 1988, left the Group in 1990 and re-joined in 1991. He became the Chief Executive Officer of Contract Manufacturing Services in 2002 after serving as General Manager for 9 years. Mr. LEUNG has over 20 years of experience in the electronics and manufacturing industry.

William FUNG Kwok Lun, SBS, OBE, JP, aged 70, appointed as an Independent Non-executive Director in 2001. Dr. FUNG holds a Bachelor of Science degree in Engineering from Princeton University and an MBA degree from the Harvard Graduate School of Business. He was awarded the degrees of Doctor of Business Administration, *honoris causa*, by The Hong Kong University of Science and Technology, by The Hong Kong Polytechnic University and by Hong Kong Baptist 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 an independent non-executive director of Shui On Land Limited, Sun Hung Kai Properties Limited and The Hongkong and Shanghai Hotels, Limited. He was a non-executive director of Trinity Limited (2006-2018). Dr. FUNG has held key positions in major trade associations. He is the past chairman of the Hong Kong General Chamber of Commerce (1994-1996), the Hong Kong Committee for the Pacific Economic Cooperation (1993-2002) and the Hong Kong Exporters' Association (1989-1991). He was a Hong Kong Special Administrative Region delegate to the Chinese People's Political Consultative Conference (1998-2003). He was awarded the Silver Bauhinia Star by the Government of the Hong Kong Special Administrative Region in 2008.

KO Ping Keung, JP, aged 68, appointed as an Independent Non-executive Director in 2018. Professor KO holds a Bachelor of Science (Honours) degree from The University of Hong Kong, a Doctor of Philosophy degree and a Master of Science degree from the University of California at Berkeley. He is an Emeritus Professor of Electronic & Computer Engineering and the former Dean of the School of Engineering of The Hong Kong University of Science and Technology. He was the Vice Chairman of Electrical Engineering and Computer Science Department of the University of California at Berkeley (1991-1993) and a member of Technical staff, Bell Labs, Holmdel (1982-1984). Professor KO is currently an independent non-executive director of Henderson Investment Limited, Henderson Land Development Company Limited and Q Technology (Group) Company Limited. He was also appointed as a director of Beken Corporation, the shares of which are listed on Shanghai Stock Exchange on 15 April 2019.

Patrick WANG Shui Chung, SBS, JP, aged 68, appointed as an Independent Non-executive Director in 2001. Dr. WANG obtained his Bachelor of Science and Master of Science degrees in Electrical Engineering and received an Honorary Doctorate of Engineering from Purdue University in Indiana, USA. Dr. WANG is currently the chairman and chief executive of Johnson Electric Holdings Limited and a non-executive director of Tristate Holdings Limited. He is also a member of the Clinical Governance Committee of the Hong Kong Sanatorium & Hospital.

WONG Kai Man, BBS, JP, aged 68, appointed as an Independent Non-executive Director in 2012. Mr. WONG holds a Bachelor of Science degree in Physics from The University of Hong Kong and an MBA degree from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. WONG is a retired audit partner of PricewaterhouseCoopers with 32 years of professional accounting experience. He was a member of the Growth Enterprise Market Listing Committee of The Stock Exchange of Hong Kong Limited (1999-2003). He was a non-executive director of the Securities and Futures Commission (2009-2015), an independent non-executive director of China Construction Bank Corporation (2007-2013), Shangri-la Asia Limited (2006-2015) and Great Wall Pan Asia Holdings Limited (formerly known as Armada Holdings Limited and SCMP Group Limited) (2007-2016). He was a court member (2010-2017) and council member (2011-2017) of The University of Hong Kong, an honorary associate professor of the School of Business of The University of Hong Kong (2005-2018). He was a court member of the City University of Hong Kong (2016-2018). He is currently a member of the Financial Reporting Council and an independent non-executive director of SUNeVision Holdings Limited. Mr. WONG also serves on the boards of a number of non-governmental organisations.

Biographical Details of Senior Management

Group

TONG Chi Hoi, aged 54, President of Telecommunication Products, is responsible for overseeing the Telecommunication Products Branded and ODM business worldwide. Mr. TONG joined the Group in 2006. He has over 30 years of experience in the electronics and manufacturing industry. Mr. TONG holds a First Class Honours Bachelor's degree in Electrical and Electronics Engineering from the University of London. He is a member of The Institution of Engineering and Technology. Mr. TONG resigned as the President of Telecommunication Products with effect from 30 April 2019.

CHU Chorng Yeong, aged 59, Group Chief Technology Officer, is responsible for overseeing the product development of the Electronic Learning Products as well as contributing to the Group in establishing technology strategies and product development directions. Dr. CHU joined the Group in 2009. 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 50, 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, a Master of Science degree in Information Systems from The Hong Kong Polytechnic University and a Bachelor of Laws degree from Manchester Metropolitan University, UK. She is an associate member of the Chartered Institute of Bankers, UK, the Chartered Institute of Management Accountants, UK and a fellow member of the Hong Kong Institute of Certified Public Accountants.

CHANG Yu Wai, aged 59, 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 51, Group General Manager – Operations, is responsible for the manufacturing operations of both the Telecommunication Products and Electronic Learning Products. Mr. CHEUNG joined the Group in 2000 as Factory Manager for the Electronic Learning Products and rejoined the Group in 2007. Prior to rejoining the Group, he had held management positions in a number of areas including product development, factory operations and supply chain management in the electronic manufacturing industry. Mr. CHEUNG holds a Bachelor of Engineering degree in Manufacturing Engineering from the City University of Hong Kong and an MBA degree from The Hong Kong University of Science and Technology. Mr. CHEUNG was promoted to the position of President of Telecommunication Products with effect from 30 April 2019.

North America

Ernest M. LEVENSON, aged 58, President of VTech Communications, Inc., is responsible for the sales, operations, human resources and marketing of the Telecommunication Products in the United States. Mr. LEVENSON joined the Group in 2004 as the vice president of operations of the Telecommunications Products in the United States. Mr. LEVENSON holds a Bachelor's degree in Philosophy from Connecticut College and a Master's degree in Business Administration from Babson College.

Andrew Seth KEIMACH, aged 57, President of VTech Electronics North America, L.L.C., joined the Group in 2018. Mr. KEIMACH is responsible for the Electronic Learning Products in the United States. Prior to joining the Group, he was the President of Munchkin, Inc., a leading infant products manufacturers in the United States. Mr. KEIMACH has over 30 years of experience in global consumer products. Mr. KEIMACH holds a Bachelor's degree in Finance from the University of Maryland.

Gordon CHOW, aged 63, 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 was 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. Mr. CHOW was promoted to the position of President of Telecommunication Products, North America to expand his responsibilities to cover the Telecommunication Products in the United States with effect from 1 April 2019.

Europe

Gilles SAUTIER, aged 63, International President, joined the Group in 2000 and is responsible for the Electronic Learning Products in the United States, Europe, Australia, Latin America and South Africa. He is also responsible for the support centre in Holland which takes care of finance, logistics management and IT systems for the European sales companies. With over 35 years of experience in marketing, sales and management in the toy industry, he held various positions in Kenner-Parker, Spear's Games, Ideal Toys and Majorette. 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 2019.

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 2019 are set out in the consolidated statement of profit or loss on page 50.

An interim dividend of US17.0 cents (2018: US17.0 cents) per ordinary share was paid to shareholders on 17 December 2018. The Board has recommended the payment of a final dividend of US50.0 cents (2018: US63.0 cents) per ordinary share in respect of the year ended 31 March 2019, payable on 29 July 2019 to shareholders whose names appear on the register of members of the Company as at the close of business on 18 July 2019 subject to the approval of the shareholders of the Company at the 2019 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 16 July 2019.

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 2019 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 84.

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 19 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company and the reserves available for distribution to shareholders of the Company during the financial year are set out in the consolidated statement of changes in equity on page 51 and in note 20 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$264,000.

Directors

The Directors who held office during the financial year and up to 20 May 2019 (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
KO Ping Keung
Patrick WANG Shui Chung
WONG Kai Man

At the 2019 AGM, Dr. Allan WONG Chi Yun, Mr. Andy LEUNG Hon Kwong and Dr. Patrick WANG Shui Chung shall retire as Directors by rotation in accordance with Bye-law 112 of the Company's Bye-laws and, being eligible, shall offer themselves for re-election as Directors at the 2019 AGM.

Brief biographical details of the Directors and the 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 maintained the Directors and Officers' Liability Insurance to provide protection against claims arising from the lawful discharge of duties by the Directors and the directors of the subsidiaries.

Directors' Service Contracts

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

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

Directors' Interests in Contracts

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

Directors' Rights to Acquire Shares or Debentures

Save for the share option scheme and the share purchase scheme disclosed below and in note 19 to the financial statements, at no time during or at the end of the financial year was the Company, or any of its subsidiaries or its holding companies, a party to any arrangement which enables the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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 19(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.

On 19 May 2015, the Company further amended and extended the Share Purchase Scheme such that the Company may furnish the trustee of the Share Purchase Scheme with cash to subscribe for new shares under the general mandate of the Company (as approved by the annual general meeting of the Company from time to time) and hold such new shares in trust for the selected participants (not being connected persons of the Company) under the Share Purchase Scheme. The new shares, when issued and fully paid, will rank pari passu among themselves and with the shares currently in issue, pursuant to the Share Purchase Scheme. During the financial year, 200,000 new shares (2018: 190,000 shares) were issued under the general mandate of the Company pursuant to the Share Purchase Scheme.

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

Details of the Share Purchase Scheme and the French Subplan are set out in note 19(c) to the financial statements.

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

As at 31 March 2019, 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	34.87%
PANG King Fai	211,500	–	–	60,000 *(Note 2)*	271,500	0.11%
Andy LEUNG Hon Kwong	298,000	–	–	100,000 *(Note 3)*	398,000	0.16%
William FUNG Kwok Lun	449,430	5,000 *(Note 4)*	592,200 *(Note 5)*	–	1,046,630	0.42%
Patrick WANG Shui Chung	162,000	–	–	–	162,000	0.06%

Notes:

(1) The shares were beneficially owned as to 1,416,325 shares by Honorex Limited ("Honorex"), as to 65,496,225 shares by Conquer Rex Limited ("Conquer Rex") and as to 7,188,603 shares by Twin Success Pacific Limited ("Twin Success"). Conquer Rex was wholly owned by Honorex. Each of Conquer Rex, Honorex and Twin Success was wholly owned by Surplus Assets Limited ("Surplus Assets"). Surplus Assets was wholly owned by Credit Suisse Trust Limited 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 21 May 2019 subject to the achievement of certain performance conditions for the year ended 31 March 2019.

(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 21 May 2019 subject to the achievement of certain performance conditions for the year ended 31 March 2019.

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

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

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

(7) The approximate percentage of shareholding is calculated based on 251,572,133 shares of the Company in issue as at 31 March 2019.

Save as disclosed above, as at 31 March 2019, 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 2019, 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	29.46%
Surplus Assets Limited	Interest of controlled corporation *(Note 1)*	74,101,153	29.46%
Honorex Limited	Interest of controlled corporation *(Note 1)*	65,496,225	26.03%
	Beneficial owner *(Note 1)*	1,416,325	0.56%
Conquer Rex Limited	Beneficial owner *(Note 1)*	65,496,225	26.03%
The Capital Group Companies, Inc.	Interest of controlled corporation *(Note 2)*	31,679,095	12.59%
BlackRock, Inc.	Interest of controlled corporation *(Note 3)*	15,684,421	6.23%
Short Position			
BlackRock, Inc.	Interest of controlled corporation *(Note 3)*	1,063,900	0.42%

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 long position includes derivative interests of 4,800 shares derived from unlisted and cash settled derivatives.*

(3) *The long position includes derivative interests of 518,900 shares derived from unlisted and cash settled derivatives. The short position includes 166,400 shares derived from unlisted and cash settled derivatives.*

(4) *The approximate percentage of shareholding is calculated based on 251,572,133 shares of the Company in issue as at 31 March 2019.*

Save as disclosed above, as at 31 March 2019, 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 2019 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 2019.

Securities Purchase Arrangements

At the 2018 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 334,100 Company's shares at a consideration of approximately US$3.4 million.

Major Customers and Suppliers

For the year ended 31 March 2019, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total value of purchases. The Group's largest customer accounted for approximately 11.6% of the Group's revenue and the Group's five largest customers in aggregate accounted for approximately 36.1% 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 parent company of the Group's largest customer, and 33,500 shares (representing less than 0.01% of the total issued shares) and 1,296 shares (representing less than 0.001% of the total issued shares) in one of the Group's five largest customers and the parent company of one of the Group's five largest customers, respectively.

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

Pre-emptive Rights

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

Auditor

The Group's consolidated financial statements have been audited by KPMG, who shall retire and, being eligible, offer itself for reappointment at the 2019 AGM.

On behalf of the Board

Allan WONG Chi Yun
Chairman

Hong Kong, 20 May 2019

KPMG

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 83, which comprise the consolidated statement of financial position as at 31 March 2019, 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 2019 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 13 to the consolidated financial statements and the accounting policies on page 58.

The Key Audit Matter	How the matter was addressed in our audit
Stocks held at the year end comprise a wide range of products including electronic learning products and telecommunication products. Sales of stocks in the electronic products industry can be volatile due to keen competition in the market and consumer demand frequently changing. The Group typically sells or disposes of slow moving stocks at a markdown from the original price to maintain the strength of the brand and make room for new products on the shelves of retailers. Accordingly, the actual future selling prices of some items of stocks may fall below their cost. Management assesses the net realisable value of slow moving and excess stocks with reference to the stock ageing report, anticipated future selling prices and/or sales forecasts. Stocks are written down to their net realisable value where this falls below their cost. We identified the valuation of stocks as a key audit matter because determining appropriate stock write-downs and provisions involves predicting the excess quantities of stocks which will remain unused or unsold after the end of the reporting period and the markdowns necessary to sell such slow moving stocks, which can be inherently uncertain and requires the exercise of significant management judgement.	Our audit procedures to assess the valuation of stocks included the following: • evaluating the Group's stock write-down and provision policy with reference to the requirements of the prevailing accounting standards; • assessing whether the stock write-downs and provisions made at the reporting date were consistent with the Group's stock write-down and provision policy by recalculating the stock write-downs and provisions based on the relevant parameters in the policy; • assessing the historical accuracy of management's judgements in making write-downs and provisions for stocks by examining the utilisation or release of provisions recorded as at 31 March 2018 and new provisions made in the current year in respect of stocks on hand as at 31 March 2018; • 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 2019.

Assessing potential impairment of goodwill

Refer to note 11 to the consolidated financial statements and the accounting policies on page 55.

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

Assessing the loss allowance for trade debtors

Refer to notes 14 and 21(a) to the consolidated financial statements and the accounting policies on pages 56 to 58.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 March 2019, the Group's gross trade debtors totalled US$270.7 million, against which loss allowances of US$7.7 million were recorded. The Group's loss allowances are based on management's estimate of the lifetime expected credit losses, which is estimated by taking into account ageing of trade debtors and credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. Such assessment involves a significant degree of management judgement. We identified the loss allowance for trade debtors as a key audit matter because determining the level of loss allowance requires the exercise of significant management judgement.	Our audit procedures to assess the loss allowance for trade debtors included the following: • obtaining an understanding of and assessing the design and implementation of management's key internal controls relating to credit control, debt collection and estimation of expected credit losses; • assessing, on a sample basis, whether items in the trade debtors' ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with underlying documentation, which included sales invoices and goods delivery notes; • obtaining an understanding of the key parameters and assumptions of the expected credit loss model adopted by the management, including historical default data and management's estimated loss rates; • assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information; • reperforming the calculation of the loss allowance as at 1 April 2018 and 31 March 2019 based on the Group's credit loss allowance policies; and • inspecting, on a sample basis, cash receipts from customers subsequent to the financial year end relating to trade debtor balances as at 31 March 2019 with bank statements and relevant remittance documentation.

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

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

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

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 May 2019

Consolidated Statement of Profit or Loss

For the year ended 31 March 2019

	Note	2019 US$ million	2018 US$ million
Revenue	1	**2,161.9**	2,130.1
Cost of sales		**(1,525.5)**	(1,428.1)
Gross profit		**636.4**	702.0
Other income	2	**5.9**	4.2
Selling and distribution costs		**(294.0)**	(318.9)
Administrative and other operating expenses		**(77.9)**	(78.4)
Research and development expenses		**(77.2)**	(77.6)
Operating profit	1(b)&2	**193.2**	231.3
Net finance expense		**(0.9)**	(0.3)
Profit before taxation		**192.3**	231.0
Taxation	4	**(21.0)**	(24.7)
Profit for the year and attributable to shareholders of the Company		**171.3**	206.3
Earnings per share (US cents)	6		
– Basic		**68.2**	82.1
– Diluted		**68.1**	82.1

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2019

	2019 US$ million	2018 US$ million
Profit for the year	**171.3**	206.3
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax	**0.2**	5.0
	0.2	5.0
Items that may be reclassified subsequently to profit or loss:		
Fair value gains/(losses) on hedging, net of deferred tax	**5.9**	(4.5)
Realisation of hedging reserve, net of deferred tax	**3.5**	(4.7)
Exchange translation differences	**(20.4)**	32.7
	(11.0)	23.5
Other comprehensive income for the year	**(10.8)**	28.5
Total comprehensive income for the year	**160.5**	234.8

Consolidated Statement of Financial Position

As at 31 March 2019

	Note	2019 US$ million	2018 US$ million
Non-current assets			
Tangible assets	7	**84.3**	76.2
Leasehold land payments	8	**4.5**	4.8
Intangible assets	9	**18.6**	19.6
Investments	10	**5.4**	5.4
Goodwill	11	**36.1**	31.1
Net assets on defined benefit scheme	18(b)	**2.6**	2.7
Deferred tax assets	12(b)	**5.8**	6.3
		157.3	146.1
Current assets			
Stocks	13	**369.9**	349.9
Debtors, deposits and prepayments	14	**319.1**	348.0
Taxation recoverable	12(a)	**3.6**	1.6
Deposits and cash	15	**237.0**	254.4
		929.6	953.9
Non-current asset held for sale	7	**–**	2.7
		929.6	956.6
Current liabilities			
Creditors and accruals	16	**(443.9)**	(416.7)
Provisions for defective goods returns and other liabilities	17	**(24.9)**	(28.4)
Taxation payable	12(a)	**(7.7)**	(8.0)
		(476.5)	(453.1)
Net current assets		**453.1**	503.5
Total assets less current liabilities		**610.4**	649.6
Non-current liability			
Deferred tax liabilities	12(b)	**(3.4)**	(3.0)
		(3.4)	(3.0)
Net assets		**607.0**	646.6
Capital and reserves			
Share capital	19(a)	**12.6**	12.6
Reserves		**594.4**	634.0
Total equity		**607.0**	646.6

Approved and authorised for issue by the Board of Directors on 20 May 2019.

Allan WONG Chi Yun
Director

PANG King Fai
Director

The notes and principal accounting policies on pages 52 to 83 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 2019

	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
		Attributable to shareholders of the Company						
At 1 April 2017		12.5	148.8	(0.2)	(33.8)	5.2	452.2	584.7
Changes in equity for the year ended 31 March 2018								
Comprehensive income								
Profit for the year		–	–	–	–	–	206.3	206.3
Other comprehensive income								
Fair value losses on hedging, net of deferred tax		–	–	–	–	(4.5)	–	(4.5)
Realisation of hedging reserve, net of deferred tax		–	–	–	–	(4.7)	–	(4.7)
Exchange translation differences		–	–	–	32.7	–	–	32.7
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax		–	–	–	–	–	5.0	5.0
Other comprehensive income for the year		–	–	–	32.7	(9.2)	5.0	28.5
Total comprehensive income for the year		–	–	–	32.7	(9.2)	211.3	234.8
Final dividend in respect of the previous year		–	–	–	–	–	(133.2)	(133.2)
Interim dividend in respect of the current year	5	–	–	–	–	–	(42.8)	(42.8)
Shares issued under Share Purchase Scheme	19(c)&20(b)	0.1	3.0	(3.1)	–	–	–	–
Shares purchased for Share Purchase Scheme	19(c)&20(b)	–	–	(4.0)	–	–	–	(4.0)
Vesting of shares of Share Purchase Scheme	19(c)&20(b)	–	–	7.1	–	–	–	7.1
At 31 March 2018		12.6	151.8	(0.2)	(1.1)	(4.0)	487.5	646.6

	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**
		Attributable to shareholders of the Company						
At 1 April 2018		**12.6**	**151.8**	**(0.2)**	**(1.1)**	**(4.0)**	**487.5**	**646.6**
Changes in equity for the year ended 31 March 2019								
Comprehensive income								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**171.3**	**171.3**
Other comprehensive income								
Fair value gains on hedging, net of deferred tax		**–**	**–**	**–**	**–**	**5.9**	**–**	**5.9**
Realisation of hedging reserve, net of deferred tax		**–**	**–**	**–**	**–**	**3.5**	**–**	**3.5**
Exchange translation differences		**–**	**–**	**–**	**(20.4)**	**–**	**–**	**(20.4)**
Effect of remeasurement of net assets on defined benefit scheme, net of deferred tax		**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Other comprehensive income for the year		**–**	**–**	**–**	**(20.4)**	**9.4**	**0.2**	**(10.8)**
Total comprehensive income for the year		**–**	**–**	**–**	**(20.4)**	**9.4**	**171.5**	**160.5**
Final dividend in respect of the previous year	5	**–**	**–**	**–**	**–**	**–**	**(158.5)**	**(158.5)**
Interim dividend in respect of the current year	5	**–**	**–**	**–**	**–**	**–**	**(42.8)**	**(42.8)**
Shares issued under Share Purchase Scheme	19(c)&20(b)	**–**	**2.5**	**(2.5)**	**–**	**–**	**–**	**–**
Shares purchased for Share Purchase Scheme	19(c)&20(b)	**–**	**–**	**(3.4)**	**–**	**–**	**–**	**(3.4)**
Vesting of shares of Share Purchase Scheme	19(c)&20(b)	**–**	**–**	**4.6**	**–**	**–**	**–**	**4.6**
At 31 March 2019		**12.6**	**154.3**	**(1.5)**	**(21.5)**	**5.4**	**457.7**	**607.0**

The notes and principal accounting policies on pages 52 to 83 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2019

	Note	2019 US$ million	2018 US$ million
Operating activities			
Operating profit		**193.2**	231.3
Depreciation of tangible assets	2	**36.9**	35.0
Amortisation of leasehold land payments	2	**0.1**	0.2
Amortisation of intangible assets	2	**1.0**	0.9
Gain on disposal of an investment	2	**–**	(4.2)
(Gain)/Loss on disposal of tangible assets and non-current asset held for sale	2	**(5.9)**	0.5
Share-based payment expenses	2	**4.6**	7.1
Increase in stocks		**(17.4)**	(25.0)
Decrease/(Increase) in debtors, deposits and prepayments		**30.9**	(24.0)
Increase/(Decrease) in creditors and accruals		**33.3**	(14.0)
Decrease in provisions for defective goods returns and other liabilities		**(3.5)**	(6.5)
Decrease in net assets on defined benefit scheme		**0.2**	0.3
Cash generated from operations		**273.4**	201.6
Interest paid		**(0.9)**	(0.3)
Taxes paid		**(23.2)**	(25.6)
Net cash generated from operating activities		**249.3**	175.7
Investing activities			
Purchase of tangible assets		**(37.3)**	(37.6)
Proceeds from disposal of tangible assets and non-current asset held for sale		**9.2**	0.2
Proceeds from disposal of an investment		**–**	4.3
Payment for acquisition of an investment		**–**	(2.4)
Payment for acquisition of a subsidiary (net of cash and cash equivalents acquired)	23	**(17.8)**	–
Net cash used in investing activities		**(45.9)**	(35.5)
Financing activities			
Repayment of bank loans arising from acquisition of Snom		**–**	(1.7)
Payment for shares acquired for Share Purchase Scheme	19(c)	**(3.4)**	(4.0)
Dividends paid	5	**(201.3)**	(176.0)
Net cash used in financing activities		**(204.7)**	(181.7)
Effect of exchange rate changes		**(16.1)**	27.1
Decrease in cash and cash equivalents		**(17.4)**	(14.4)
Cash and cash equivalents at 1 April		**254.4**	268.8
Cash and cash equivalents at 31 March	15	**237.0**	254.4

The notes and principal accounting policies on pages 52 to 83 form part of these financial statements.

Principal Accounting Policies

A Principal Activities and Organisation

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

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

B Statement of Compliance

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), with collective term 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 a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period (note 27).

IFRS 9, Financial instruments

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

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

(i) Classification of financial assets and financial liabilities

IFRS 9 categorises financial assets into three principal classification categories: measured at (a) amortised cost, (b) fair value through other comprehensive income ("FVOCI") and (c) fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial liabilities remain the same.

The adoption of IFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets and financial liabilities as at 1 April 2018.

B Statement of Compliance (Continued)

IFRS 9, Financial instruments (Continued)

(ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "Expected Credit Loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including deposits and cash, debtors and deposits).

For further details on the Group's accounting policy for accounting for expected credit losses, see note (N)(i).

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to IAS 39 to be applied, and the assessment is always forward-looking. The adoption of IFRS 9 has not had a significant impact on the Group's financial statements in this regard.

For an explanation of how the Group applies hedge accounting, see note (X).

The adoption of IFRS 9 does not have any material impact on the financial position and the financial result of the Group.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 11 and 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 April 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue from sale of goods was recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised goods or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these three situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue (see note (E)).

(ii) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred. There has been no impact on the Group as a result of this change in policy.

(iii) Presentation of contract assets and contract liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (see note (E)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis (see note (Y)).

Previously, contract balances received in advance relating to contracts in progress were presented in the consolidated statement of financial position under "creditors and accruals" and presented in the note to the financial statements for "creditors and accruals" under "other creditors and accruals" (note 16).

To reflect these changes in presentation, the Group has made an adjustment to reclassify the "advances received" amounting to US$12.4 million, which was previously included in "other creditors and accruals" to "contract liabilities" (note 16) at 1 April 2018, as a result of the adoption of IFRS 15.

IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

Principal Accounting Policies (Continued)

C Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 March 2019 comprise the Company and its subsidiaries and a structured entity (together referred to as the "Group").

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 28.

D Basis of Consolidation

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

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

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

E Revenue Recognition

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

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

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

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

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

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

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

F Research and Development

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

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

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

F Research and Development (Continued)

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

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

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

H Goodwill

Goodwill represents the excess of:

(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 (see note (N)(iii)).

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

I Business Combination

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

Acquisition-related costs are expensed as incurred.

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

J Tangible Assets and Depreciation

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

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

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)(iii)). Cost comprises the construction costs of buildings and costs paid to acquire land use rights.

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

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

L Intangible Assets

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

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

Brand	30 years
Technology	5 years

Both the period and method of amortisation are reviewed annually.

Principal Accounting Policies (Continued)

M Leases

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)(iii)). 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 Credit Losses and Impairment of Assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 April 2018

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

Financial assets measured at fair value, including equity securities measured at FVPL and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

Significant increases in credit risk

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

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

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

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

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

Write-off policy

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

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

N Credit losses and impairment of Assets (Continued)

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 April 2018

Prior to 1 April 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade debtors). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. 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.

If any such evidence existed, an impairment loss for trade debtors was determined and recognised as follows:

Impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

(ii) Credit losses from financial guarantees issued

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

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

(A) Policy applicable from 1 April 2018

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

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

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

(B) Policy applicable prior to 1 April 2018

Prior to 1 April 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "creditors and accruals" in respect of the guarantee.

(iii) Impairment of other assets

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

- tangible assets;
- construction in progress;
- leasehold land payments;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

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

- Calculation of recoverable amount

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

Principal Accounting Policies (Continued)

N Credit losses and impairment of Assets (Continued)

(iii) Impairment of other assets (Continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iv) Interim financial reporting and impairment

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

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

O Other Investments

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 21(e). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 April 2018

Investments other than equity investments

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

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

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

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

Equity investments

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

(B) Policy applicable prior to 1 April 2018

Other investments were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

P Stocks

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

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

Principal Accounting Policies (Continued)

Q Trade and Other Debtors

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

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

R Cash and Cash Equivalents

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

S Trade and Other Creditors

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

T Provisions and Contingent Liabilities

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

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

U Income Tax

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

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

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

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

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

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

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

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

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

V Employee Benefits

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

(i) Defined contribution schemes

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

(ii) Defined benefit scheme

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

Principal Accounting Policies (Continued)

V Employee Benefits (Continued)

(ii) Defined benefit scheme (Continued)

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

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

(iii) Equity and equity related compensation benefits

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

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

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

W Shares held for Share Purchase Scheme

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

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

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

X Derivative Financial Instruments

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

Cash flow hedges

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates (cash flow hedges). The hedge accounting policy applied from 1 April 2018 is similar to that applicable prior to 1 April 2018. However, under the new hedge accounting policy, depending on the complexity of the hedge, the Group applies a more qualitative approach to assessing hedge effectiveness, and the assessment is always forward-looking.

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

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

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

Principal Accounting Policies (Continued)

X Derivative Financial Instruments (Continued)

Cash flow hedges (Continued)

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

Y Contract assets and contract liabilities

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

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

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

Policy applicable prior to 1 April 2018

In the comparative period, contract balances received in advance relating to accruals were presented as "other creditors and accruals" in "creditors and accruals". These balances have been reclassified on 1 April 2018 as shown in note 16.

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 Non-current Asset Held for Sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets or disposal groups are recognised at the lower of their carrying amount and fair value less costs to sell.

AB 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.

AC 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 Revenue and Segment Information

(a) Revenue

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

Disaggregation of revenue

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

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

Year ended 31 March 2018	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions US$ million	Total US$ million
Electronic Learning Products	458.2	363.2	71.9	14.0	907.3
Telecommunication Products	327.0	132.7	44.2	27.8	531.7
Contract Manufacturing Services	255.8	353.2	81.0	1.1	691.1
Total	1,041.0	849.1	197.1	42.9	2,130.1

The Group's customer base is diversified and include only one (2018: one) customer with whom transaction have exceeded 10% of the Group's revenue. For the year ended 31 March 2019, approximately 12% (2018: 12%) of the Group's revenue is derived from a single external customer. Such revenue is attributable to the North America segment.

Details of concentration of credit risk of the Group are set out in note 21(a).

(b) Segment Information

The Group manages its businesses by divisions, which are organised by geography. In accordance with IFRS 8 – Operating segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments.

- North America (including the United States and Canada)
- Europe
- Asia Pacific
- Other Regions, which covers sales of electronic products to the rest of the world

The Company is domiciled in Bermuda. The results of its revenue from external customers located in North America, Europe, Asia Pacific and elsewhere are set out in the table below.

Each of the above reportable segments primarily derives its revenue from the sale of 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") and Malaysia under the Asia Pacific segment.

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

(i) Segment revenues and results

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

The measure used for reporting segment profit is operating profit.

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

(ii) Segment assets and liabilities

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

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

1 Revenue and Segment Information (Continued)

(b) Segment Information (Continued)

(ii) Segment assets and liabilities (Continued)

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

Year ended 31 March 2018	North America US$ million	Europe US$ million	Asia Pacific US$ million	Other Regions US$ million	Total US$ million
Reportable segment revenue	1,041.0	849.1	197.1	42.9	2,130.1
Reportable segment profit	119.1	65.4	39.5	7.3	231.3
Depreciation and amortisation	1.3	1.1	33.7	–	36.1
Reportable segment assets	161.5	133.6	743.6	–	1,038.7
Reportable segment liabilities	(71.9)	(32.2)	(340.9)	(0.1)	(445.1)

(iii) Reconciliations of reportable segment assets and liabilities

	Note	2019 US$ million	2018 US$ million
Assets			
Reportable segment assets		**1,017.4**	1,038.7
Intangible assets	9	**18.6**	19.6
Investments	10	**5.4**	5.4
Goodwill	11	**36.1**	31.1
Taxation recoverable	12(a)	**3.6**	1.6
Deferred tax assets	12(b)	**5.8**	6.3
Consolidated total assets		**1,086.9**	1,102.7
Liabilities			
Reportable segment liabilities		**(468.8)**	(445.1)
Taxation payable	12(a)	**(7.7)**	(8.0)
Deferred tax liabilities	12(b)	**(3.4)**	(3.0)
Consolidated total liabilities		**(479.9)**	(456.1)

2 Operating Profit

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

	Note	2019 US$ million	2018 US$ million
Staff related costs			
– salaries and wages		**335.8**	323.7
– pension costs: defined contribution schemes	18(a)	**20.2**	19.3
– pension costs: defined benefit scheme	18(b)	**1.5**	1.7
– severance payments		**3.6**	2.1
– share-based payment expenses	19(c)	**4.6**	7.1
		365.7	353.9
Cost of inventories	13(b)	**1,525.5**	1,428.1
Gain on disposal of an investment *(Note (i))*		**–**	(4.2)
Depreciation of tangible assets	7	**36.9**	35.0
Amortisation of leasehold land payments	8	**0.1**	0.2
Amortisation of intangible assets	9	**1.0**	0.9
(Gain)/Loss on disposal of tangible assets and non-current asset held for sale *(Note (i))*		**(5.9)**	0.5
Auditors' remuneration			
– audit services		**0.9**	0.8
– audit related services		**0.1**	0.1
– tax services		**0.6**	0.7
– other advisory services		**–**	0.1
Operating leases charges: minimum lease payments			
– land and buildings		**27.7**	26.1
– others		**5.5**	4.9
Loss allowance for trade debtors	21(a)	**0.6**	7.4
Reversal of loss allowance for trade debtors	21(a)	**(1.6)**	(1.8)
Royalties		**12.2**	12.3
Provision for defective goods returns	17	**20.2**	22.7
Net foreign exchange (gain)/loss		**(0.3)**	0.1
Net loss/(gain) on forward foreign exchange contracts			
– Net loss/(gain) on cash flow hedging instruments reclassified from equity		**3.8**	(5.2)
– Net gain on forward foreign exchange contracts		**(1.3)**	(2.2)

Note:

(i) Gain on disposal of an investment during the year ended 31 March 2018 and gain on disposal of non-current asset held for sale during the year ended 31 March 2019 are included in other income in the Consolidated Statement of Profit or Loss.

3 Directors' Emoluments and Individuals with Highest Emoluments

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

Directors' emoluments

	Fees US$ million	Salaries, allowances and benefits in kind US$ million	Discretionary bonuses US$ million	Contributions to retirement benefit schemes US$ million	Share-based payment US$ million	Total US$ million
For the year ended 31 March 2019						
Executive Directors *(i)*						
Allan WONG Chi Yun *(ii)*	**–**	**1.1**	**1.7**	**0.1**	**–**	**2.9**
PANG King Fai *(iii)*	**–**	**0.6**	**0.5**	**–**	**0.6**	**1.7**
Andy LEUNG Hon Kwong *(iii)*	**–**	**0.7**	**1.1**	**–**	**1.0**	**2.8**
Independent Non-executive Directors						
William FUNG Kwok Lun *(iv)*	**–**	**–**	**–**	**–**	**–**	**–**
KO Ping Keung *(v)*	**–**	**–**	**–**	**–**	**–**	**–**
Patrick WANG Shui Chung *(vi)*	**–**	**–**	**–**	**–**	**–**	**–**
WONG Kai Man *(vii)*	**–**	**–**	**–**	**–**	**–**	**–**
	–	**2.4**	**3.3**	**0.1**	**1.6**	**7.4**
For the year ended 31 March 2018						
Executive Directors *(i)*						
Allan WONG Chi Yun *(ii)*	–	1.0	2.3	0.1	–	3.4
PANG King Fai *(iii)*	–	0.5	0.7	–	0.8	2.0
Andy LEUNG Hon Kwong *(iii)*	–	0.6	1.3	–	1.3	3.2
Independent Non-executive Directors						
William FUNG Kwok Lun *(iv)*	–	–	–	–	–	–
KO Ping Keung *(v)*	–	–	–	–	–	–
Patrick WANG Shui Chung *(vi)*	–	–	–	–	–	–
WONG Kai Man *(vii)*	–	–	–	–	–	–
	–	2.1	4.3	0.1	2.1	8.6

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

Directors' emoluments (Continued)

Notes:

(i) *The Directors' fee paid to each executive Director, except for Dr. Allan WONG Chi Yun, was US$30,000 (2018: US$30,000) per annum. The Directors' fee paid to Dr. Allan WONG Chi Yun was US$32,000 (2018: US$32,000) per annum.*

(ii) *Included in the emoluments paid to Dr. Allan WONG Chi Yun, a housing benefit of HK$4,800,000 for the year ended 31 March 2019 (2018: 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 (2018: 60,000 shares) and 100,000 shares (2018: 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 Directors' fee paid to Dr. William FUNG Kwok Lun was US$38,000 (2018: US$38,000) per annum.*

(v) *The Directors' fee paid to Professor KO Ping Keung was US$37,000 per annum (2018: US$6,183 for the period from his date of appointment on 30 January 2018 to 31 March 2018).*

(vi) *The Directors' fee paid to Dr. Patrick WANG Shui Chung was US$38,000 (2018: US$38,000) per annum.*

(vii) *The Directors' fee paid to Mr. WONG Kai Man was US$39,000 (2018: US$39,000) per annum.*

Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2018: three) are Directors whose emoluments are set out above. The aggregate of the emoluments in respect of the other two (2018: two) individuals are as follows:

	2019 US$ million	2018 US$ million
Salaries, allowances and benefits in kind	**1.3**	1.6
Discretionary bonuses	**1.2**	1.8
Contributions to retirement benefit schemes	**–**	–
Share-based payment	**1.0**	1.3
	3.5	4.7

The emoluments fell within the following bands:

	2019 Individuals	2018 Individuals
US$		
1,537,001 – 1,601,000	**1**	–
1,601,001 – 1,665,000	**–**	1
1,857,001 – 1,921,000	**1**	–
3,009,001 – 3,073,000	**–**	1
	2	2

During the years ended 31 March 2019 and 31 March 2018, 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:

	2019 Individuals	2018 Individuals
US$		
1,001 – 65,000	**–**	1
321,001 – 385,000	**1**	1
385,001 – 449,000	**1**	1
449,001 – 513,000	**1**	1
577,001 – 641,000	**2**	2
641,001 – 705,000	**1**	1
1,217,001 – 1,281,000	**–**	1
1,281,001 – 1,345,000	**1**	–
	7	8

4 Taxation

	Note	**2019 US$ million**	2018 US$ million
Current tax			
– Hong Kong		**12.1**	17.7
– Overseas		**9.2**	7.2
(Over)/under-provision in respect of prior years			
– Hong Kong		**(0.3)**	(1.5)
– Overseas		**(0.1)**	0.5
Deferred tax			
– Origination and reversal of temporary differences	12(b)	**0.1**	0.8
		21.0	24.7
Current tax		**20.9**	23.9
Deferred tax		**0.1**	0.8
		21.0	24.7

(a) Hong Kong Profits Tax has been calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year.

(b) Overseas taxation has been calculated at the current rates of taxation prevailing in the jurisdiction in which the Group operates.

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

The consolidated effective income tax rate for the year ended 31 March 2019 was 10.9% (2018: 10.7%). The effective income tax rate is reconciled to the statutory domestic income tax rate as follows:

	2019 %	2018 %
Statutory domestic income tax rate	**16.5**	16.5
Difference in overseas income tax rates	**1.9**	1.5
Tax effect of non-temporary differences	**(7.5)**	(7.3)
Effective income tax rate	**10.9**	10.7

5 Dividends

	Note	2019 US$ million	2018 US$ million
Interim dividend of US17.0 cents (2018: US17.0 cents) per share declared and paid	20(b)	**42.8**	42.8
Final dividend of US50.0 cents (2018: US63.0 cents) per share proposed after the end of the reporting period	20(b)	**125.8**	158.5

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 2018, the Directors proposed a final dividend of US63.0 cents per ordinary share for the year ended 31 March 2018, which was estimated to be US$158.4 million at the time calculated on the basis of the ordinary shares in issue as at 31 March 2018. The final dividend was approved by shareholders at the annual general meeting on 11 July 2018. The final dividend paid in respect of the year ended 31 March 2018 totaled US$158.5 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$171.3 million (2018: US$206.3 million).

The calculation of basic earnings per share is based on the weighted average of 251.3 million (2018: 251.1 million) ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme.

The calculation of diluted earnings per share for the year ended 31 March 2019 was based on 251.4 million ordinary shares which is the weighted average number of ordinary shares in issue during the year after adjusting for shares held for Share Purchase Scheme and the number of dilutive potential Awarded Shares under the Company's Share Purchase Scheme. No material adjustment has been made to the basic earnings per share presented for the year ended 31 March 2018 as the Company did not have any significant dilutive potential Awarded Shares during the year.

7 Tangible Assets and Non-current Asset Held for Sale

	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 2017	50.6	21.0	302.7	140.4	6.9	521.6
Additions	–	3.6	24.6	9.4	–	37.6
Disposals	–	(0.1)	(4.8)	(3.3)	–	(8.2)
Transfer to non-current asset held for sale	(7.6)	–	(0.4)	–	–	(8.0)
Effect of changes in exchange rates	2.5	2.2	4.7	8.6	–	18.0
At 31 March 2018 and 1 April 2018	45.5	26.7	326.8	155.1	6.9	561.0
Additions	–	2.9	24.7	9.7	–	37.3
Disposals	–	(0.2)	(7.9)	(3.2)	–	(11.3)
Additions upon acquisition of a subsidiary *(Note 23)*	5.3	–	6.9	0.2	–	12.4
Effect of changes in exchange rates	(0.9)	(1.6)	(5.9)	(5.8)	–	(14.2)
At 31 March 2019	**49.9**	**27.8**	**344.6**	**156.0**	**6.9**	**585.2**
Accumulated depreciation						
At 1 April 2017	38.4	11.4	270.3	122.5	6.9	449.5
Charge for the year	1.2	1.7	22.3	9.8	–	35.0
Written back on disposals	–	(0.1)	(4.3)	(3.1)	–	(7.5)
Transfer to non-current asset held for sale	(5.1)	–	(0.2)	–	–	(5.3)
Effect of changes in exchange rates	1.3	1.4	3.3	7.1	–	13.1
At 31 March 2018 and 1 April 2018	35.8	14.4	291.4	136.3	6.9	484.8
Charge for the year	1.0	1.9	24.7	9.3	–	36.9
Written back on disposals	–	(0.2)	(7.5)	(3.0)	–	(10.7)
Effect of changes in exchange rates	(0.4)	(0.9)	(4.6)	(4.2)	–	(10.1)
At 31 March 2019	**36.4**	**15.2**	**304.0**	**138.4**	**6.9**	**500.9**
Net book value at 31 March 2019	**13.5**	**12.6**	**40.6**	**17.6**	**–**	**84.3**
Net book value at 31 March 2018	9.7	12.3	35.4	18.8	–	76.2

7 Tangible Assets and Non-Current Asset Held for Sale (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 2017	10.1	40.5	50.6
Transfer to non-current asset held for sale	(7.6)	–	(7.6)
Effect of changes in exchange rates	0.9	1.6	2.5
At 31 March 2018 and 1 April 2018	3.4	42.1	45.5
Addition upon acquisition of a subsidiary	5.3	–	5.3
Effect of changes in exchange rates	–	(0.9)	(0.9)
At 31 March 2019	**8.7**	**41.2**	**49.9**
Accumulated depreciation			
At 1 April 2017	6.3	32.1	38.4
Charge for the year	0.3	0.9	1.2
Transfer to non-current asset held for sale	(5.1)	–	(5.1)
Effect of changes in exchange rates	0.7	0.6	1.3
At 31 March 2018 and 1 April 2018	2.2	33.6	35.8
Charge for the year	0.1	0.9	1.0
Effect of changes in exchange rates	–	(0.4)	(0.4)
At 31 March 2019	**2.3**	**34.1**	**36.4**
Net book value at 31 March 2019	**6.4**	**7.1**	**13.5**
Net book value at 31 March 2018	1.2	8.5	9.7
Net book value of land and buildings at 31 March 2019 comprises:			
Hong Kong			
Medium-term leasehold land and buildings			
(less than 50 years but not less than 10 years)	1.2	–	1.2
Overseas			
Medium-term leasehold land and buildings	5.2	–	5.2
Short-term leasehold buildings	–	7.1	7.1

Non-current Asset Held for Sale

During the year ended 31 March 2018, the Group put certain land and buildings and machinery and equipment in the market for sale and it was highly probable the carrying amount would be recovered principally through a sale transaction. Accordingly, these land and buildings and machinery and equipment with total carrying amount of US$2.7 million have been reclassified from "tangible assets" to "non-current asset held for sale" as at 31 March 2018. These land and buildings and machinery and equipment were sold during the year ended 31 March 2019 and resulted in a gain on disposal of tangible assets and non-current asset held for sale of US$5.9 million for the year ended 31 March 2019.

8 Leasehold Land Payments

	Note	**2019 US$ million**	2018 US$ million
Net book value at 1 April		**4.8**	4.5
Amortisation	2	**(0.1)**	(0.2)
Effect of changes in exchange rates		**(0.2)**	0.5
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$2.8 million (2018: US$3.1 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 2017, 31 March 2018, 1 April 2018 and 31 March 2019	**20.0**	**1.1**	**21.1**
Accumulated amortisation			
At 1 April 2017	0.6	–	0.6
Charge for the year	0.6	0.3	0.9
At 31 March 2018 and 1 April 2018	1.2	0.3	1.5
Charge for the year	0.8	0.2	1.0
At 31 March 2019	**2.0**	**0.5**	**2.5**
Net book value at 31 March 2019	**18.0**	**0.6**	**18.6**
Net book value at 31 March 2018	18.8	0.8	19.6

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

10 Investments

At 31 March 2019, investments of US$5.4 million (2018: US$5.4 million) included investments in unlisted companies measured at fair value through profit or loss of US$5.4 million (2018: US$5.4 million).

11 Goodwill

	2019 US$ million	2018 US$ million
Cost		
At 1 April	**31.1**	31.1
Arising from acquisition of a subsidiary *(Note 23)*	**5.0**	–
At 31 March	**36.1**	31.1

Goodwill arose from the acquisition of the entire equity interest in LeapFrog Enterprises, Inc. ("LeapFrog"), Snom Technology GmbH ("Snom") and VTech Communications (Malaysia) Sdn. Bhd. (formerly known as Pioneer DJ Malaysia Sdn. Bhd.) ("VTech Malaysia"). Details of the acquisition of VTech Malaysia during the year are set out in note 23 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:

	2019 US$ million	2018 US$ million
Electronic Learning Products	**23.2**	23.2
Snom	**7.9**	7.9
VTech Malaysia	**5.0**	–
	36.1	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 Electronic Learning Products is determined based on value-in-use calculation. The calculation uses cash flow projections based on a five-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 1% (2018: not more than 1%). The discount rate used of approximately 14.8% (2018: 14.8%) is pre-tax and reflects specific risks related to the relevant operation.

The recoverable amount of Snom is determined based on value-in-use calculation. The calculation uses cash flow projections based on a five-year financial budget approved by management, extrapolated perpetually with an estimated general long-term continuous annual growth of not more than 1% (2018: not more than 1%). The discount rate used of approximately 15.4% (2018: 14.8%) is pre-tax and reflects specific risks related to the relevant operation.

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

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

12 Income Tax in the Consolidated Statement of Financial Position

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

	2019 US$ million	2018 US$ million
Provision for profits tax for the year	**(21.3)**	(24.9)
Provisional profits tax paid	**16.4**	17.3
	(4.9)	(7.6)
Balance of profits tax recoverable relating to prior years	**0.8**	1.2
	(4.1)	(6.4)
Represented by:		
Taxation recoverable *(note (i))*	**3.6**	1.6
Taxation payable *(note (i))*	**(7.7)**	(8.0)
	(4.1)	(6.4)

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 jurisdiction and after netting off provisional tax paid.

12 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 2019 and 31 March 2018 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 2017		3.3	(2.4)	2.9	3.8
(Charged)/Credited to consolidated statement of profit or loss	4	(1.5)	0.1	0.6	(0.8)
Credited to other comprehensive income		–	–	0.3	0.3
At 31 March 2018		1.8	(2.3)	3.8	3.3
At 1 April 2018		1.8	(2.3)	3.8	3.3
(Charged)/Credited to consolidated statement of profit or loss	4	(0.2)	0.1	–	(0.1)
Charged to other comprehensive income		–	–	(0.8)	(0.8)
At 31 March 2019		**1.6**	**(2.2)**	**3.0**	**2.4**

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:

	2019 US$ million	2018 US$ million
Deferred tax assets	**5.8**	6.3
Deferred tax liabilities	**(3.4)**	(3.0)
	2.4	3.3

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$14.6 million (2018: US$14.8 million) arising from unused tax losses sustained in the operations of certain subsidiaries of US$74.4 million (2018: US$75.2 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 2019.

The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in the PRC expire 5 years after the relevant accounting year end date in which they arose. The tax losses arising from the operations in the United States in tax years ending before 1 January 2018 expire up to 20 years after the relevant accounting year end date in which they arose, depending on the relevant jurisdictions.

13 Stocks

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

	2019 US$ million	2018 US$ million
Raw materials	**142.3**	130.1
Work in progress	**40.7**	32.3
Finished goods	**186.9**	187.5
	369.9	349.9

Stocks carried at net realisable value at 31 March 2019 amounted to US$20.0 million (2018: US$18.1 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:

	2019 US$ million	2018 US$ million
Carrying amount of stocks sold	**1,514.6**	1,415.6
Write-down of stocks	**13.7**	12.8
Reversal of write-down of stocks	**(2.8)**	(0.3)
	1,525.5	1,428.1

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.

14 Debtors, Deposits and Prepayments

	Note	2019 US$ million	2018 US$ million
Trade debtors (Net of loss allowance of US$7.7 million (2018: US$9.3 million))	14(a)& 21(a)	**263.0**	264.9
Other debtors, deposits and prepayments		**48.4**	75.2
Financial assets measured at amortised cost		**311.4**	340.1
Forward foreign exchange contracts held as cash flow hedging instruments	21(b)&(d)	**7.7**	7.9
		319.1	348.0

All of other debtors, deposits and prepayments apart from the amounts of US$7.9 million (comprised largely of rental deposits) (2018: US$8.1 million) are expected to be recovered or recognised as an expense within one year.

14 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 loss allowance, is as follows:

	2019 US$ million	2018 US$ million
0-30 days	**144.7**	145.6
31-60 days	**75.5**	77.1
61-90 days	**36.8**	30.9
>90 days	**6.0**	11.3
Total	**263.0**	264.9

The majority of the Group's sales are on letters of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in note 21(a).

15 Deposits and Cash

	2019 US$ million	2018 US$ million
Short term bank deposits	**28.0**	87.1
Cash at bank and in hand	**209.0**	167.3
	237.0	254.4

Deposits and cash as at 31 March 2019 include US$13.2 million (2018: US$14.2 million) placed with banks in the PRC, the remittance of which is subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

16 Creditors and Accruals

	Note	31 March 2019 US$ million	1 April 2018 *(note (i))* US$ million	31 March 2018 *(note (i))* US$ million
Trade creditors	16(a)	**244.7**	209.4	209.4
Contract liabilities	16(b)	**11.6**	12.4	–
Other creditors and accruals	16(c)	**187.1**	184.8	197.2
Forward foreign exchange contracts held as cash flow hedging instruments	21(b)&(d)	**0.5**	10.1	10.1
		443.9	416.7	416.7

Note:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 April 2018.

(a) Ageing analysis

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

	2019 US$ million	2018 US$ million
0-30 days	**94.3**	74.6
31-60 days	**40.3**	39.9
61-90 days	**55.7**	57.0
>90 days	**54.4**	37.9
Total	**244.7**	209.4

(b) Contract liabilities

The Group may bill in advance of performance in manufacturing arrangements for certain customers. Upon the adoption of IFRS 15, an amount of US$12.4 million included in "other creditors and accruals" were reclassified to "contract liabilities" on 1 April 2018.

The contract liabilities of US$12.4 million at 1 April 2018 was recognised as revenue during the year ended 31 March 2019 upon the transfer of control over the products to the customers.

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

(c) Other creditors and accruals

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

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

17 Provisions for Defective Goods Returns and Other Liabilities

At 31 March 2019, provisions of US$24.9 million (2018: US$28.4 million) include provision for defective goods returns of US$17.8 million (2018: US$20.3 million) and other liabilities of US$7.1 million (2018: US$8.1 million).

Movement of provision for defective goods returns is as follows:

	2019 US$ million	2018 US$ million
At 1 April	**20.3**	21.5
Additional provisions charged to consolidated statement of profit or loss	**20.2**	22.7
Utilised during the year	**(22.7)**	(23.9)
At 31 March	**17.8**	20.3

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.

18 Pension Schemes

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

(a) Defined contribution schemes

For the defined contribution schemes operated for overseas employees and Hong Kong employees under the MPF Ordinance, the retirement benefit costs expensed in the consolidated statement of profit or loss amounted to US$19.2 million (2018: US$18.4 million) and US$1.0 million (2018: US$0.9 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 2019 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:

	2019 US$ million	2018 US$ million
Fair value of Scheme assets	**36.0**	36.7
Present value of funded defined benefit obligations	**(33.4)**	(34.0)
Net assets on defined benefit scheme recognised in the consolidated statement of financial position	**2.6**	2.7

A portion of the above assets is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay US$1.3 million in contributions to defined benefit retirement scheme in the year ending 31 March 2020.

(ii) Movement in fair value of Scheme assets:

	2019 US$ million	2018 US$ million
At 1 April	**36.7**	31.9
Interest income on Scheme assets	**0.7**	0.5
Return on Scheme assets excluding interest income	**(0.7)**	4.3
Actual Group's contributions	**1.3**	1.4
Actual benefits paid	**(1.9)**	(1.4)
Administrative expenses paid from Scheme assets	**(0.1)**	–
At 31 March	**36.0**	36.7

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

	2019 US$ million	2018 US$ million
At 1 April	**34.0**	34.4
Actuarial gains arising from changes in liability experience	**(0.2)**	(0.3)
Actuarial gains arising from changes in financial assumptions	**(0.8)**	(0.9)
Actuarial losses arising from changes in demographic assumptions	**0.2**	–
Interest cost	**0.6**	0.5
Current service cost	**1.5**	1.7
Actual benefits paid	**(1.9)**	(1.4)
At 31 March	**33.4**	34.0

The weighted average duration of the defined benefit obligations is 6.1 years (2018: 6.8 years).

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

	Note	2019 US$ million	2018 US$ million
Current service cost		**1.5**	1.7
Net interest income on net defined benefit asset		**(0.1)**	–
Administrative expenses paid from Scheme assets		**0.1**	–
Amounts recognised in profit or loss	2	**1.5**	1.7
Actuarial gains		**(0.8)**	(1.2)
Return on Scheme assets excluding interest income		**0.7**	(4.3)
Amounts recognised in other comprehensive income		**(0.1)**	(5.5)
Total defined benefit expense/(income)		**1.4**	(3.8)

(v) Scheme assets consist of the following:

	2019 US$ million	2018 US$ million
Equity securities:		
– Financial institutions	**5.5**	6.7
– Non-financial institutions	**11.3**	13.6
	16.8	20.3
Bonds:		
– Government	**7.8**	5.8
– Non-government	**10.6**	9.6
	18.4	15.4
Cash and others	**0.8**	1.0
	36.0	36.7

18 Pension Schemes (Continued)

(b) Defined benefit scheme (Continued)

(vi) The significant actuarial assumptions used as at 31 March 2019 (expressed as weighted average) and sensitivity analysis are as follows:

	2019	2018
Discount rate	**1.4%**	1.9%
Future salary increases	**3.5%**	4.5%

The below analysis shows how the net assets on defined benefit scheme as at 31 March 2019 would have increased/(decreased) as a result of a 0.25% point change in the significant actuarial assumptions:

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

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

19 Share Capital, Share Options and Share Purchase Scheme

(a) Share Capital

	2019 US$ million	2018 US$ million
Authorised		
Ordinary shares: 400,000,000 (2018: 400,000,000) of US$0.05 each	**20.0**	20.0

	2019		2018	
	No. of shares	**US$ million**	No. of shares	US$ million
Issued and fully paid				
Ordinary shares of US$0.05 each:				
At 1 April	**251,372,133**	**12.6**	251,182,133	12.5
Issue of new shares under general mandate pursuant to the Share Purchase Scheme	**200,000**	**–**	190,000	0.1
At 31 March	**251,572,133**	**12.6**	251,372,133	12.6

The Company's issued and fully paid shares as at 31 March 2019 included 361,300 shares (2018: 344,700 shares) held in trust by the trustee under the Share Purchase Scheme and 12,000 shares (2018: 10,600 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 19(c).

The company level statement of financial position can be found in note 25.

(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 9.2% of the issued share capital of the Company as at the date of the Annual Report. During the financial year and since the adoption of the 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.

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

(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.

On 19 May 2015, the Company further amended and extended the Share Purchase Scheme such that the Company may furnish the trustee of the Share Purchase Scheme with cash to subscribe for new shares under the general mandate of the Company (as approved by the annual general meeting of the Company from time to time) and hold such new shares in trust for the selected participants (not being connected persons of the Company) under the Share Purchase Scheme. The new shares, when issued and fully paid, will rank pari passu among themselves and with the shares currently in issue, pursuant to the Share Purchase Scheme. During the financial year, 200,000 new shares (2018: 190,000 shares) were issued under the general mandate of the Company 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 subject to the defined vesting period. The vesting period applicable under the French Subplan is currently not less than 1 year following the date of the award and a further 1 year sales restriction period as calculated from the date of the Awarded Shares being transferred to the eligible French employees.

During the year ended 31 March 2019, 334,100 shares (2018: 293,100 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$3.4 million (2018: US$4.0 million).

Details of the Awarded Shares (including those awarded pursuant to the French Subplan) which have been granted to the executive Directors, senior management and eligible employees during each of the years ended 31 March 2019 and 31 March 2018, respectively, are as follows:

Date of award *(Note 1)*	Average purchase cost per Awarded Share	Number of Awarded Shares granted *(Note 6)*	Cost of related Awarded Shares	Vesting Period for Awarded Shares granted under Share Purchase Scheme	Vesting Period for Awarded Shares granted under French Subplan
Year ended 31 March 2019					
22 June 2018	HK$99.3	198,500	US$2.5 million	22 June 2018 to 28 June 2018	22 June 2020 to 28 June 2020
4 January 2019	HK$79.7	200,000 *(Note 2)*	US$2.1 million	21 May 2019 to 27 May 2019	–
Year ended 31 March 2018					
23 June 2017	HK$116.2	191,900	US$2.9 million	23 June 2017 to 29 June 2017	23 June 2019 to 29 June 2019
15 December 2017	HK$108.3	300,000 *(Note 3)*	US$4.2 million	18 May 2018 to 24 May 2018	–
23 March 2018	HK$108.3	31,000 *(Note 3)*	US$0.4 million	18 May 2018 to 24 May 2018	–

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 and 40,000 Awarded Shares were granted to executive Directors and senior management on 4 January 2019 respectively.

(3) 160,000 Awarded Shares were granted to executive Directors on 15 December 2017. 140,000 Awarded Shares and 31,000 Awarded Shares were granted to senior management on 15 December 2017 and 23 March 2018 respectively.

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

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

(6) These Awarded Shares included 5,800 Awarded Shares (2018: 6,200 Awarded Shares) granted under the French Subplan during the financial year.

As at 31 March 2019, a total of 361,300 shares (2018: 344,700 shares) were held in trust by the trustee under the Share Purchase Scheme and 12,000 shares (2018: 10,600 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 2019, share-based payment expenses of US$4.6 million (2018: US$7.1 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.

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

(d) Capital management (Continued)

The Group has no bank borrowings as at 31 March 2019 and 31 March 2018. 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 2019 and 31 March 2018 is as follows:

	2019 US$ million	2018 US$ million
Total equity	**607.0**	646.6
Less: Proposed dividends	**(125.8)**	(158.4)
	481.2	488.2

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

20 Reserves

(a) The Group

Details of the movements in reserves of the Group during the years ended 31 March 2019 and 31 March 2018 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 2017		12.5	148.8	(0.2)	(1.0)	271.4	431.5
Changes in equity for the year ended 31 March 2018							
Comprehensive income							
Profit for the year		–	–	–	–	191.3	191.3
Total comprehensive income for the year		–	–	–	–	191.3	191.3
Final dividend in respect of the previous year		–	–	–	–	(133.2)	(133.2)
Interim dividend in respect of the current year	5	–	–	–	–	(42.8)	(42.8)
Shares issued under Share Purchase Scheme	19(c)	0.1	3.0	(3.1)	–	–	–
Shares purchased for Share Purchase Scheme	19(c)	–	–	(4.0)	–	–	(4.0)
Vesting of shares of Share Purchase Scheme	19(c)	–	–	7.1	–	–	7.1
At 31 March 2018 and 1 April 2018		12.6	151.8	(0.2)	(1.0)	286.7	449.9
Changes in equity for the year ended 31 March 2019							
Comprehensive income							
Profit for the year		–	–	–	–	158.4	158.4
Total comprehensive income for the year		–	–	–	–	158.4	158.4
Final dividend in respect of the previous year	5	–	–	–	–	(158.5)	(158.5)
Interim dividend in respect of the current year	5	–	–	–	–	(42.8)	(42.8)
Shares issued under Share Purchase Scheme	19(c)	–	2.5	(2.5)	–	–	–
Shares purchased for Share Purchase Scheme	19(c)	–	–	(3.4)	–	–	(3.4)
Vesting of shares of Share Purchase Scheme	19(c)	–	–	4.6	–	–	4.6
At 31 March 2019		**12.6**	**154.3**	**(1.5)**	**(1.0)**	**243.8**	**408.2**

Reserves of the Company available for distribution to shareholders amounted to US$243.8 million (2018: US$286.7 million).

20 Reserves (Continued)

(c) Nature and purpose of reserves

The application of share premium account is governed by the Companies Act 1981 of Bermuda.

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operations.

The hedging reserve comprises the effective portion of the cumulative net change in fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flows.

21 Financial Risk Management and Fair Values

Exposure to credit, currency, interest rate and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade debtors. The Group's exposure to credit risk arising from cash and cash equivalents and derivative financial assets is limited because the counterparties are banks, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade debtors

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 9.1% (2018: 10.6%) and 36.1% (2018: 24.6%) of the total trade debtors was due from the Group's largest customer and the five largest customers respectively.

The majority of the Group's sales are on letters of credit and on open credit with varying terms of 30 to 90 days. Certain open credit sales are covered by credit insurance or bank guarantees.

The Group measures loss allowances for trade debtors at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade debtors as at 31 March 2019:

	Expected loss rate %	**Gross carrying amount US$ million**	**Loss allowance US$ million**
Current (not past due)	0.1%	247.7	(0.2)
1-30 days past due	13.2%	17.4	(2.3)
31-60 days past due	83.3%	2.4	(2.0)
61-90 days past due	100.0%	1.3	(1.3)
More than 90 days past due	100.0%	1.9	(1.9)
		270.7	(7.7)

Expected loss rates are based on actual loss experience over the past year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the trade debtors.

Comparative information under IAS 39

Prior to 1 April 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note (N)(i) – policy applicable prior to 1 April 2018). At 31 March 2018, trade debtors of US$9.3 million were determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2018 US$ million
Neither past due nor impaired	246.5
1-30 days past due	16.1
31-60 days past due	1.4
61-90 days past due	0.5
More than 90 days past due	0.4
	264.9

Trade debtors that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Movement in the loss allowance account in respect of trade debtors during the year is as follows:

	2019 US$ million	2018 US$ million
At 1 April	**9.3**	8.1
Amounts written off during the year	**(0.5)**	(4.5)
Loss allowance recognised	**0.6**	7.4
Reversal of loss allowance	**(1.6)**	(1.8)
Effect of changes in exchange rates	**(0.1)**	0.1
At 31 March	**7.7**	9.3

(b) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in currencies other than the functional currency of the operations to which they relate. As the Hong Kong Dollar ("HKD") is pegged to United States Dollar ("USD"), the Group does not expect any significant movements in the HKD/USD exchange rate. The currencies giving rise to foreign currency risk are primarily denominated in Euro ("EUR"), Pounds Sterling ("GBP"), Canadian dollars ("CAD"), Australian dollars ("AUD") and Renminbi ("RMB"). The Group manages this risk as follows:

(i) Hedges of foreign currency risk in forecast transactions

The Group uses forward exchange contracts to manage its currency risk until the settlement date of foreign currency receivables or payables. The Group designates those forward exchange contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of a forward exchange contract but instead designates the forward exchange contract in its entirety in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate.

21 Financial Risk Management and Fair Values (Continued)

(b) Currency risk (Continued)

(i) Hedges of foreign currency risk in forecast transactions (Continued)

The Group enters into forward foreign exchange contracts in order to hedge the currency risk in respect of highly probable forecast sales transactions. Forward foreign exchange contracts are matched with anticipated future cash flows. As at 31 March 2019, the notional principal amounts of these outstanding forward foreign exchange contracts were US$24.2 million (2018: US$254.1 million) with net positive fair value of US$1.9 million (2018: net negative fair value of US$8.6 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 in respect of highly probable forecast transactions for the Group's PRC operations. Forward foreign exchange contracts are matched with anticipated future cash flows. As at 31 March 2019, the notional principal amounts of these outstanding forward foreign exchange contracts for hedging highly probable forecast transactions were US$244.4 million (2018: US$126.3 million) with net positive fair value of US$5.3 million (2018: US$6.4 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 2019, the Group has not offset any of the financial instruments as no parties have exercised their rights to offset the recognised amounts in the financial statements.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the forward exchange contracts and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows. The main sources of ineffectiveness in these hedging relationships are:

(a) the effect of the counterparty's and the Group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(b) changes in the timing of the hedged transactions.

The following table details the forward exchange contracts that have been designated as cash flow hedges of the Group's highly probable forecast transactions at the end of the reporting period:

	2019		2018	
	Foreign currency $ million	**US$ million**	Foreign currency $ million	US$ million
Notional amount				
– Sell AUD	**–**	**–**	10.0	7.9
– Sell CAD	**–**	**–**	28.5	22.8
– Sell GBP	**–**	**–**	7.5	10.8
– Sell EUR	**19.5**	**24.2**	176.3	212.6
– Buy RMB	**1,681.9**	**244.4**	839.5	126.3

	2019 US$ million	2018 US$ million
Carrying amount *(note)*		
– Asset	**7.7**	7.9
– Liability	**(0.5)**	(10.1)

Note: Forward exchange contract assets and liabilities are included in the "Debtors, Deposits and Prepayments" (note 14) and "Creditors and Accruals" (note 16) line items in the consolidated statement of financial position respectively.

The forward exchange contracts have a maturity of less than one year from the reporting date and have an average exchange rate between the respective foreign currency and USD as follows.

	2019	2018
AUD to USD	**–**	0.79716
USD to CAD	**–**	1.25002
GBP to USD	**–**	1.44030
EUR to USD	**1.23893**	1.20574
USD to RMB	**6.88192**	6.64699

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2019 US$ million	2018 US$ million
Balance at 1 April	**(4.0)**	5.2
Effective portion of the cash flow hedge recognised in other comprehensive income	**10.3**	(10.0)
Related tax	**(0.9)**	0.8
Balance at 31 March	**5.4**	(4.0)
Change in fair value of the derivative instruments during the year	**11.6**	(7.8)
Hedging ineffectiveness recognised in profit or loss	**(1.3)**	(2.2)
Effective portion of the cash flow hedge recognised in other comprehensive income	**10.3**	(10.0)

(ii) Sensitivity analysis

A sensitivity analysis was performed at 31 March 2019 to measure the instantaneous change in the Group's profit after tax and total equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HKD and USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

Management estimated that a 5% appreciation/depreciation of EUR, GBP, CAD, AUD and RMB against USD would not have a material effect on the Group's profit after taxation and equity attributable to shareholders for the years ended 31 March 2019 and 31 March 2018.

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 2018.

21 Financial Risk Management and Fair Values (Continued)

(c) Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rates changes on income-earning financial assets. The following table indicates their effective interest rates at the end of the reporting period.

Deposits and cash

	2019		2018	
	Effective interest rate	**US$ million**	Effective interest rate	US$ million
Variable rate	**0.67%**	**209.0**	0.30%	167.3
Fixed rate	**2.32%**	**28.0**	1.23%	87.1

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 2019 and 31 March 2018, respectively. This is mainly attributable to the Group's exposure to interest rate changes on its variable rate income-earning financial assets including floating rate deposits and cash. The analysis is performed on the same basis for 2018.

(d) Liquidity risk

Cash management of the Company and wholly-owned subsidiaries of the Group are substantially centralised at the Group level. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

		Contractual undiscounted cash flows			
	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**
At 31 March 2019					
Trade creditors	**244.7**	**244.7**	**244.7**	**–**	**–**
Other creditors and accruals	**187.1**	**187.1**	**187.1**	**–**	**–**
Derivatives settled gross:					
Forward foreign exchange contracts					
– cash flow hedge *(note 21(b)(i))*					
– outflow		**266.7**	**266.7**	**–**	**–**
– inflow		**(273.9)**	**(273.9)**	**–**	**–**
At 31 March 2018					
Trade creditors	209.4	209.4	209.4	–	–
Other creditors and accruals	197.2	197.2	197.2	–	–
Derivatives settled gross:					
Forward foreign exchange contracts					
– cash flow hedge *(note 21(b)(i))*					
– outflow		389.0	389.0	–	–
– inflow		(386.8)	(386.8)	–	–

(e) Fair values measurement

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

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 2019 and 31 March 2018.

21 Financial Risk Management and Fair Values (Continued)

(e) Fair values measurement (Continued)

Financial instruments carried at fair value

The Group's financial instruments are measured at fair value at the end of the reporting period on a recurring basis, categorised into three-level fair value hierarchy as defined in IFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair values measured using significant unobservable inputs

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position. All fair value measurements below are recurring.

		Fair value measurements categorised into		
	Fair value US$ million	Level 1 US$ million	Level 2 US$ million	Level 3 US$ million
At 31 March 2019				
Assets:				
Forward foreign exchange contracts	**7.7**	**–**	**7.7**	**–**
Investments	**5.4**	**–**	**–**	**5.4**
Liabilities:				
Forward foreign exchange contracts	**(0.5)**	**–**	**(0.5)**	**–**
At 31 March 2018				
Assets:				
Forward foreign exchange contracts	7.9	–	7.9	–
Investments	5.4	–	–	5.4
Liabilities:				
Forward foreign exchange contracts	(10.1)	–	(10.1)	–

During the years ended 31 March 2019 and 31 March 2018, 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 Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward foreign exchange contracts in Level 2 is determined by discounting the difference between the forward exchange rates at the end of the reporting period and the contractual forward exchange rates.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Sensitivity to changes in significant unobservable inputs
Investments	Market approach	Comparable transaction price	The estimated fair value would increase if the comparable transaction price is higher

The fair value of investments is determined using the comparable transaction price. The Group determines the comparable transaction price is the fair value at the end of the reporting period. As at 31 March 2019, it is estimated that with other variables held constant, an increase/decrease in 5% (2018: 5%) of comparable transaction price would have increased/decreased the net assets by US$0.3 million (2018: US$0.3 million).

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2019 US$ million	2018 US$ million
Investments:		
At 1 April	**5.4**	3.0
Additions	**–**	2.4
At 31 March	**5.4**	5.4

22 Commitments

	2019 US$ million	2018 US$ million
(i) Capital commitments for property, plant and equipment		
Authorised but not contracted for	**29.9**	27.7
Contracted but not provided for	**9.9**	9.1
	39.8	36.8
(ii) Operating lease commitments		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Land and buildings		
In one year or less	**25.1**	27.1
Between one and two years	**19.8**	23.7
Between two and five years	**25.7**	36.7
In more than five years	**27.5**	36.9
	98.1	124.4

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 will 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.

22 Commitments (Continued)

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 will 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 2019 amounted to US$2.3 million (2018: US$4.9 million), of which US$2.1 million and US$0.1 million are payable in the financial years ending 31 March 2020 and 2021 respectively and the remaining US$0.1 million is payable before the financial year ending 31 March 2024.

23 Acquisition of a Subsidiary

On 4 May 2018, the Group announced that it had signed an agreement with Pioneer Corporation under which the Group would acquire a manufacturing facility in Malaysia owned by Pioneer Technology (Malaysia) Sdn. Bhd., a subsidiary of Pioneer Corporation.

The transaction was completed on 20 August 2018 with total consideration of approximately US$19.5 million, upon which VTech Malaysia became an indirect wholly-owned subsidiary of the Company.

The acquisition is expected to bring synergistic benefits to the Group. It strengthens the Group's contract manufacturing service position as a leading professional audio equipment manufacturer. The goodwill of US$5.0 million arising from the acquisition is attributable to acquired economies of scale expected from combining the operations of the Group and VTech Malaysia. None of the goodwill recognised is expected to be deductible for income tax purpose.

Acquisition-related costs of US$0.2 million have been charged to administrative and other operating expenses in the consolidated statement of profit or loss for the year ended 31 March 2019.

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

	Net assets acquired and goodwill US$ million
Aggregate consideration	**19.5**
Less: Estimated fair value of net assets acquired	**(14.5)**
Goodwill on acquisition	**5.0**

	Estimated fair value US$ million
Tangible assets	**12.4**
Stocks	**2.6**
Deposits and prepayments	**0.2**
Deposits and cash	**1.7**
Accruals	**(2.4)**
Net identifiable assets and liabilities	**14.5**

	Net cash outflow US$ million
Purchase consideration settled in cash	**19.5**
Less: Deposits and cash of VTech Malaysia acquired	**(1.7)**
	17.8

(ii) Revenue and profit contribution

Following the acquisition, VTech Malaysia contributed revenue and profit after taxation of US$40.7 million and US$2.0 million respectively for the year ended 31 March 2019.

The effect to the Group's revenue and profit for the year ended 31 March 2019 would not have been materially different from US$65.4 million and US$2.4 million respectively if the above acquisition had taken place on 1 April 2018.

24 Contingent Liabilities

(a) Certain subsidiaries of the Group are involved in litigation arising in the ordinary course of their respective businesses and are involved in certain accusations of infringements of patents, trademarks and tradenames. Having reviewed outstanding claims and taking into account legal advice received, the Directors are of the opinion that even if the claims are found to be valid, there will be no material adverse effect on the financial position of the Group.

(b) In November 2015, the Company experienced a cyber attack in which an intruder gained unauthorised access to some of our databases and servers, and stole certain personal data of our customers around the world. The Company immediately took the affected databases and servers offline to ensure that our customer data was safe from further attack. In addition, the Company has taken steps to report the incidents to a number of governmental authorities and law enforcement authorities in various jurisdictions. The Company has subsequently recovered the personal data of our customers to ensure that copies of information that were disseminated to two other third parties (a journalist and a cyber-security consultant) have been destroyed or taken offline, held securely and not disseminated further. The Company has since then been subject to class action litigation in the US and governmental investigations in various jurisdictions and substantially all of them have been settled. With regard to an investigation that has not yet been finally resolved and taking into account legal advice received, adequate provisions have been made only to the extent that the amounts can be reliably estimated.

(c) As at 31 March 2019, 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 (2018: US$426.9 million). The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was US$Nil.

As at 31 March 2019, the Directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

25 Company-level Statement of Financial Position

	Note	**2019 US$ million**	2018 US$ million
Non-current asset			
Investments in subsidiaries	25(a)	**227.5**	227.5
Current assets			
Amounts due from subsidiaries		**365.2**	407.9
Deposits and cash		**0.7**	0.6
		365.9	408.5
Current liabilities			
Amounts due to subsidiaries		**(184.2)**	(185.2)
Creditors and accruals		**(1.0)**	(0.9)
		(185.2)	(186.1)
Net current assets		**180.7**	222.4
Net assets		**408.2**	449.9
Capital and reserves			
Share capital	19(a)	**12.6**	12.6
Reserves	20(b)	**395.6**	437.3
Total equity		**408.2**	449.9

Approved and authorised for issue by the Board of Directors on 20 May 2019.

Allan WONG Chi Yun
Director

PANG King Fai
Director

25 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 2019 are set out below:

Name of subsidiary	Particulars of issued and paid up capital	Percentage of interest held by the Group	Principal activity
Incorporated/established and operating in Hong Kong:			
VTech Communications Limited	1,000 ordinary shares 5,000,000 deferred shares	*100	Design, manufacture and sale of electronic products
VTech Electronics Limited	5,000,000 ordinary shares	*100	Design, manufacture and distribution of electronic products
VTech Telecommunications Limited	1,000 ordinary shares 5,000,000 deferred shares	*100	Design, manufacture and distribution of telecommunication products
Perseus Investments Limited	1,000 ordinary shares 1,000 deferred shares	100	Property holding
Valentia Investment Limited	1,000 ordinary shares 1,000 deferred shares	100	Property holding
VTech Finance Limited	1,000,000 ordinary shares	*100	Provision of group financing services
Incorporated/established and operating in Australia:			
VTech Telecommunications (Australia) Pty Limited	AUD1	*100	Sale of telecommunication products
VTech Electronics (Australia) Pty Limited	AUD1	*100	Sale of electronic products
Incorporated/established and operating in Canada:			
VTech Technologies Canada Ltd.	Class A CAD5,000 Class B CAD195,000	*100 *100	Sale of telecommunication and electronic products
Incorporated/established and operating in France:			
VTech Electronics Europe S.A.S.	EUR450,000	*100	Sale of electronic products
Incorporated/established and operating in Germany:			
VTech Electronics Europe GmbH	EUR500,000	*100	Sale of electronic products
VTech IAD GmbH	EUR25,000	*100	Development of broadband connectivity software
Snom Technology GmbH	EUR144,578	*100	Design, manufacture and distribution of telecommunication products
Incorporated/established and operating in Malaysia:			
VTech Communications (Malaysia) Sdn. Bhd.	MYR66,319,533	*100	Manufacture of consumer electronic products
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$99,986,165	*100	Manufacture of electronic products
VTech (Dongguan) Electronics Limited**	HK$64,800,000	*100	Manufacture of electronic products
VTech (Dongguan) Electronics Industrial Co., Ltd.**	HK$18,725,011	*100	Manufacture and sale of electronic products
VTech (Dongguan) Plastic Products Co., Ltd.**	HK$20,000,000	*100	Manufacture of plastic products
VTech (Dongguan) Telecommunications Limited**	HK$52,500,000	*100	Manufacture of telecommunication products
VTech (Qingyuan) Plastic & Electronics Co., Ltd**	HK$293,000,000	*100	Manufacture of plastic products
VTech Telecommunications (Shenzhen) Limited**	HK$5,000,000	*100	Sale of telecommunication products
VTech Electronics Industrial (Shenzhen) Co., Ltd**	HK$10,000,000	*100	Sale of telecommunication and electronic products

25 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 2019 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 Spain:			
VTech Electronics Europe, S.L.	EUR500,000	*100	Sale of electronic products
Incorporated/established and operating in the United Kingdom:			
VTech Electronics Europe Plc	GBP500,000	*100	Sale of electronic products
Incorporated/established and operating in the United States:			
VTech Electronics North America, L.L.C.	US$22,212,997	*100	Sale of electronic products
VTech Communications, Inc.	US$300,000	*100	Sale of telecommunication products
LeapFrog Enterprises, Inc.	US$100 common stock	*100	Development of electronic products

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

(b) 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 19(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 19(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.

26 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.

27 Possible Impact of Amendments, New Standards and Interpretations issued but not yet effective for the Annual Accounting Period ended 31 March 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 March 2019 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
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations 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. The actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 September 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

IFRS 16, *Leases*

As disclosed in accounting policy note (M), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and

27 Possible Impact of Amendments, New Standards and Interpretations issued but not yet effective for the Annual Accounting Period ended 31 March 2019 (Continued)

IFRS 16, *Leases* (Continued)

measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

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.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019 and will not restate the comparative information. As disclosed in note 22, at 31 March 2019 the Group's future minimum lease payments under non-cancellable operating leases amount to US$98.1 million for land and buildings, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of IFRS 16, the operating lease commitments, after taking account the renewal terms and the effects of discounting, will be recognised in the consolidated statement of financial position as at 1 April 2019 as right-of-use assets and lease liabilities.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

28 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 18 and 21 contain information about the assumptions and their risk factors relating to pension scheme obligations and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

Valuation of stocks

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

Impairment of assets

The Group reviews internal and external sources of information at the end of each reporting period to identify indications that assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased, except in the case of goodwill. The Group estimates the asset's recoverable amount when any such indication exists. In addition, for goodwill, the Group estimates the recoverable amount to determine whether or not there is any indication of impairment. The recoverable amount of an asset, or of the cash-generating unit to which it belongs, is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and these risks specific to the assets. The preparation of projected future cash flows involves the estimation of future revenue and operating costs which are based on reasonable assumptions supported by information available to the Group. Changes in the estimates would result in additional impairment provisions or reversal of impairment in future years.

Impairment of trade debtors

The Group's loss allowances are based on management's estimate of the lifetime expected credit losses, which is estimated by taking into account ageing of trade debtors and credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the report date. Changes in these estimates could have a significant impact on the loss allowance to be recognised or reversed in future years.

Provision for defective goods returns

The Group recognises provision for expected return claims, which included cost of repairing or replacing defective goods, loss of margin and cost of materials scrapped, based on past experience of the level of repairs and returns. The Group uses all available information in determining an amount that is a reasonable approximation of the costs including estimates based on reasonable historical information and supportable assumptions. Changes in these estimates could have a significant impact on the provision and could result in additional charges or reversal of provision in future years.

	Consolidated statement of financial position as at 31 March				
	2015 US$ million	2016 US$ million	2017 US$ million	2018 US$ million	**2019 US$ million**
Non-current assets					
Tangible assets	67.0	68.4	72.1	76.2	**84.3**
Leasehold land payments	5.0	4.8	4.5	4.8	**4.5**
Intangible assets	–	–	20.5	19.6	**18.6**
Goodwill	–	–	31.1	31.1	**36.1**
Net assets on defined benefit scheme	–	–	–	2.7	**2.6**
Other non-current assets	4.6	10.4	10.1	11.7	**11.2**
	76.6	83.6	138.3	146.1	**157.3**
Current assets					
Stocks	290.2	285.4	324.9	349.9	**369.9**
Debtors, deposits and prepayments	259.9	266.2	325.6	348.0	**319.1**
Deposits and cash	294.2	273.0	268.8	254.4	**237.0**
Other current assets	–	2.3	2.4	1.6	**3.6**
	844.3	826.9	921.7	953.9	**929.6**
Non-current asset held for sale	–	–	–	2.7	**–**
	844.3	826.9	921.7	956.6	**929.6**
Current liabilities	(377.1)	(380.4)	(468.6)	(453.1)	**(476.5)**
Net current assets	467.2	446.5	453.1	503.5	**453.1**
Total assets less current liabilities	543.8	530.1	591.4	649.6	**610.4**
Non-current liabilities					
Secured bank loans	–	–	(1.0)	–	**–**
Net obligations on defined benefit scheme	(3.0)	(5.1)	(2.5)	–	**–**
Deferred tax liabilities	–	–	(3.2)	(3.0)	**(3.4)**
	(3.0)	(5.1)	(6.7)	(3.0)	**(3.4)**
Net assets/Total equity	540.8	525.0	584.7	646.6	**607.0**

	Consolidated statement of profit or loss for the years ended 31 March				
	2015 US$ million	2016 US$ million	2017 US$ million	2018 US$ million	**2019 US$ million**
Revenue	1,879.8	1,856.5	2,079.3	2,130.1	**2,161.9**
Profit before taxation	221.7	203.1	200.1	231.0	**192.3**
Taxation	(23.6)	(21.7)	(21.1)	(24.7)	**(21.0)**
Profit for the year and attributable to shareholders of the Company	198.1	181.4	179.0	206.3	**171.3**
Basic earnings per share (US cents)	78.9	72.2	71.3	82.1	**68.2**

Board of Directors

Executive Directors

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

Independent Non-executive Directors

William FUNG Kwok Lun
KO Ping Keung
Patrick WANG Shui Chung
WONG Kai Man

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Risk Management and Sustainability Committee

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

Company Secretary

CHANG Yu Wai

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

Auditor

KPMG
Certified Public Accountants

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

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

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